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ABSTRACT

The financial health of private higher education in Indiana during 1968-1973 was assessed as part of a larger comprehensive study. In the report, attention is directed to enrollment trends, current fund revenues and expenditures, instructional expenditures, libraries, college administration, operations and maintenance, and balance sheets. Between 1968 and 1973, the 31 participating institutions experienced a 2.2 percent enrollment decline (average full-time equivalent enrollment dropped from 1,413 to 1,382). Current fund revenues and expenditures did not increase enough to offset inflation. The deficit appears to have stemmed from a substantial increase in college-funded student aid. At the same time, tuition income grew by 29 percent, and the schools became more dependent on tuition for revenue. The data show that generally the smaller, weaker institutions are having the most problems in recruiting students and in financing. Decreasing student-faculty ratios (from 17.3:1 to 14.5:1) reflect efforts to improve educational quality, but, even more, they reflect inability to eliminate instructional staff in the face of declining enrollments. The high and rising ratio of tenured faculty further reduces the ability of these schools to cope with declining enrollments as well as their flexibility in responding to market demands. (SW)

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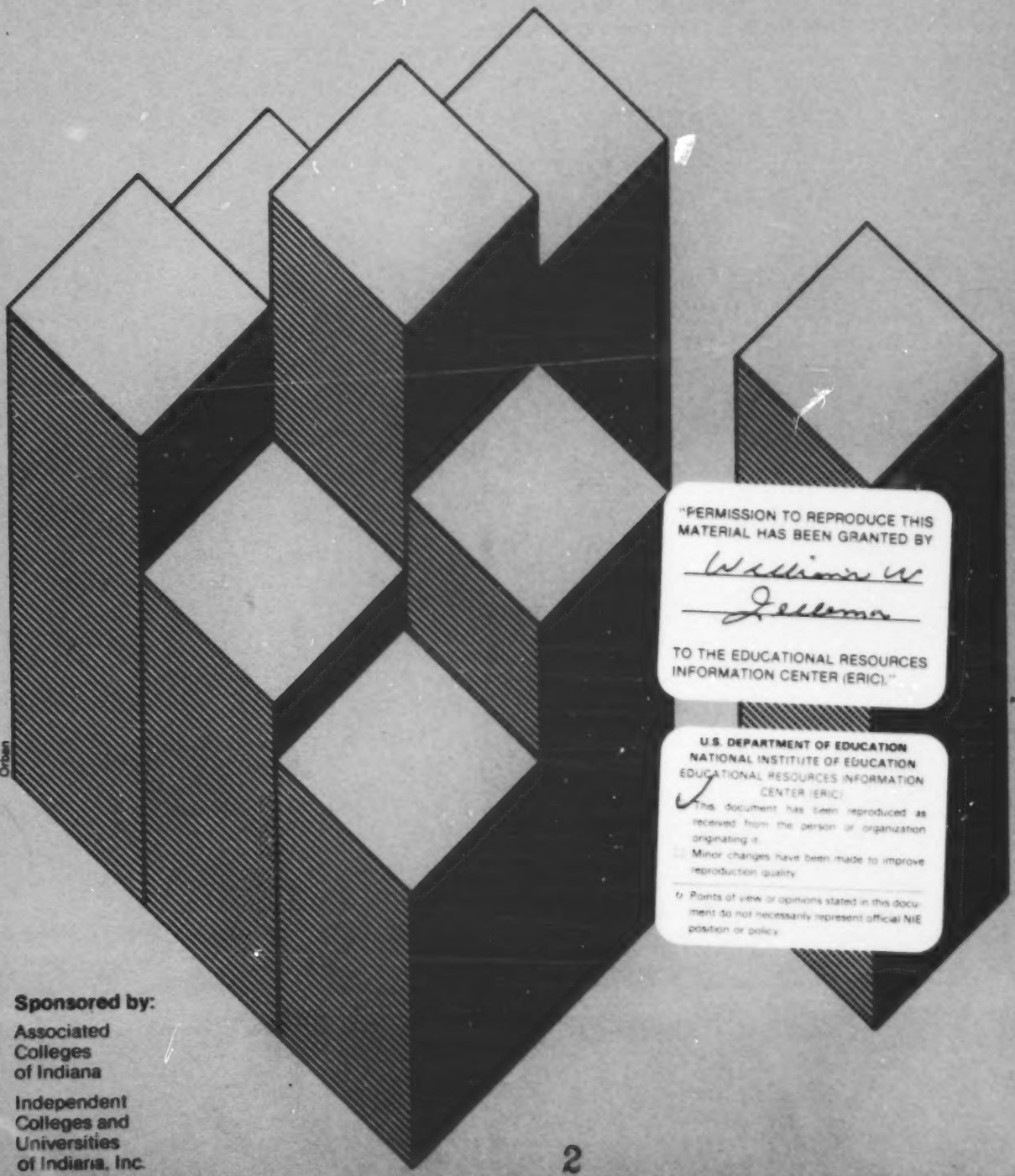

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FINANCIAL HEALTH

A Report To The
Associated Colleges of Indiana
And The
Independent Colleges and Universities of Indiana, Inc.
By The
Study of Independent Higher Education in Indiana

William W. Jellema, Director
James Olliver, Assistant Director

February, 1975

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FOREWORD

The Study of Independent Higher Education in Indiana was commissioned by the Associated Colleges of Indiana and the Independent Colleges and Universities of Indiana, Inc., whose joint boards acted as a steering committee to provide overall direction for the Study.*

Underwritten by the Lilly Endowment, Inc., the Study had, as its major purposes, to enable both the sector as a whole and individual institutions to understand themselves better; and, as a consequence of that understanding, present themselves and their case to the public and to their various constituencies articulately; and, further, to lay the basis and develop the local expertness for the systematic continuing collection of data to satisfy these continuing needs for self-understanding and articulation.

In its year of operation, the Study produced six reports on studies that were useful at both the sector level and at the individual institution level. These reports concern themselves with:

Institutional Goals

Cost of Instruction

Student Characteristics and Finances

Financial Health

Interinstitutional Cooperation

Economic Impact

This particular report on financial health was prepared with the substantial assistance of James L. Murdock and Dale A. Davis at the University of Michigan and George Mowbray of Toronto, Canada with the technical assistance of Dr. John Minter of Boulder, Colorado, largely from data supplied by patient chief business officers at each institution.

In the course of the whole Study I have been most ably assisted by James Olliver, as we have been assisted, each in turn, by Elizabeth Shelby, Harriet O'Connor, and Beverly Patterson.

William W. Jellema
Director

February, 1975

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SUMMARY-PREFACE

Financial conditions in Indiana colleges and universities have to be understood in terms of a variety of enrollment pressures and inflationary costs. The financial health of the sector appears reasonably good, on the whole, but the general tendency has been for weak institutions to become weaker and the strong ones stronger.

Between 1968-69 and 1972-73, in the 31 participating institutions in this study, enrollment declined by 2.2 percent; average FTE[1] enrollment per school dropped from 1,413 to 1,382. The large schools were better protected than the smaller ones, where the losses werely largely concentrated.

In financial terms,[2] the enrollment decline was 5.2 percent, since more free tuition or tuition subsidies were employed in more cases to help needy students in a time of inflation, and to keep up total enrollments.

Current fund revenues and expenditures--which as a rule represent the financing of day-to-day activities--did not increase quite enough (23 percent) to offset inflation. There was a $720,000 reversal from a $544,000 surplus in 1968-69 to a deficit of $176,000 in 1972-73.

The deficit appears to have stemmed from a substantial increase in college-funded student aid. At the same time, tuition income grew by 29 percent, and the schools became still more dependent on tuition for revenue (70 percent in 1972-73 vs. 68 percent in 1968-69).

Auxiliary enterprises such as dormitories, meal services, and book stores, while still profitable, declined in profitability. Had they not declined, the 1973 deficit referred to above would not have occurred. Just why this decline occurred is not clear, but lessened demand for dormitory space is one obvious reason.

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[1] FTE stands for Full-Time Equivalent. A widely used unit of enrollment measure, the FTE concept facilitates the inclusion of part-time students in educational statistics. To the number of full-time students, the usual custom is to add one FT student for every three part-time students, thus making up the FTE total.

[2] Full-time financial equivalent enrollment is total annual tuition and fee receipts divided by announced tuition rates and fee charges. See table 2.

In constant dollars, that is, after allowing for inflation, aggregate instructional expenditures remained virtually stable. In per-student terms, however, they rose in the institutions at the lower end of the expenditure scale.

Overall library budgets increased only 10.8 percent in nondeflated, or current dollars. But inflation rendered the apparent increase an actual decrease. Under salary pressures, moreover, outlays for library books and other material were still further reduced.

Administrative costs, in total, increased more (26 percent) than any other major category, a rate slightly higher than that of inflation. The main reason for this is probably the increased efforts required in recruiting students in order to sustain enrollments and in building gift income as a hedge against inflation.

The line is being held on operation and maintenance costs. This is not necessarily a healthy sign. It may be disguising gradual physical plant deterioration.

Total assets grew by $196.9 million, or 32.6 percent, for the most part not financed by external borrowing. The three institutions that showed the biggest increase (over $20 million each) accounted for nearly half of the total asset growth for the sector. As a general rule, the schools that were weakest financially in 1968-69 had the poorest showing in the period between then and 1972-73. For example, the eleven institutions with approximately 2:1 ratios of fund balances to liabilities (a low ratio) in 1972-73 also had only 70 percent of their assets represented by fund balances, and they had all deteriorated in this respect since 1968-69 (see Chapter VII).

Asset growth has been greatest in the endowment and loan funds and smallest in plant funds.

The amount of interfund borrowing practiced by the institutions has remained relatively steady overall, but some schools make more of a practice of this than others.

IMPLICATIONS

The survey data for fiscal 1968-69 to 1972-73 indicate that taken on the whole, the stability of the financial health of Indiana's private colleges and universities remains delicate. The variation among institutions is considerable. While this report does not deal with the problems and prospects of individual colleges and universities, general comments about the sector and about small groups of institutions within the sector appear to be in order.

The enrollment trends are ominous. It is clear that many institutions in the sector must make a more sober assessment of their future enrollment prospects.

In general, the smaller, weaker institutions are having the most problems in recruiting students and, as a result, in financing. The growing tuition-dependency of these schools bodes ill for their future. Perhaps a collaborative approach to management might reduce some of the diseconomies of their small scale operations. Something more than typically modest interinstitutional cooperation seems highly desirable and probably necessary if these institutions and their common missions are to brace themselves for the future successfully.

Decreasing student-faculty ratios (from 17.3:1 to 14.5:1) reflect efforts to improve educational quality, but, even more, they reflect inability to eliminate instructional staff in the face of declining enrollments.

The high and rising ratio of tenured faculty (increases during the period ranged from 2 percent to 46 percent) further reduces the ability of these schools to cope with declining enrollments as well as their flexibility in responding to market demands.

From our data we cannot gauge with definitive accuracy the degree of unutilized student space available in the private institutions in 1972-73. Declining faculty-student ratios suggest that at least 20 percent (i.e., some 10,000 FTE students) could have been accommodated. A thorough space-data analysis has been made by Dr. James Blakesley of Purdue University. From these data we have judged the academic-administrative space (classrooms, laboratories, libraries, etc.) to be the most important variable in this complex question. To the total of such space available in the independent sector, we have brought (as a divisor) the median square-feet-per-student figure of actual 1971 usage in all Indiana institutions, both private and public. The median is one hundred feet per FTE student. The arithmetic result is an intimation that 13,150 more students (30 percent of 1972-73 enrollments of 43,122) could have been accommodated. Any such increase would probably require additional faculty and staff over and above the numbers employed in 1968-69. Underenrollment is a problem that will grow more severe, one suspects, on account of demographic trends and a low (8.5 percent) participation rate of Indiana high school graduates in Indiana private colleges and universities.

When tuitions increase at a rate faster than educational expenditures (simply because those are revenues which institutions can increase), students may feel that their share of the overall financial burden is becoming heavier year by year and that they may be getting less for their dollar. What is needed is another source of support that can grow with the economy. The state legislature, especially, should move swiftly to provide an infusion of funds to prevent this deteriorating trend and to maintain a viable independent sector.

The financial health of Indiana private higher education varies, of course, as between schools. The future cannot be faced with complacency and even not without trepidation, except perhaps for the few larger and stronger institutions.

CHAPTER I

ENROLLMENT 1968-73

DECREASES

The thirty-one[1] independent Indiana colleges and universities participating in this financial health study had a 1968-69 FTE student enrollment of 43,809. The corresponding figure for 1973-74 was 42,830, a decline of 2.2 percent. Average enrollment declined from 1,413 to 1,382. See table 1, below.

The schools in this study vary considerably in size, from Northwood Institute (189 students) to the University of Notre Dame (8,214). The concentration of institutions in the under-1,700 enrollment range can be seen in figure 1. The median enrollment is 1,000; in other words, the universities (Butler, Evansville, Notre Dame and Valparaiso) cause the average enrollment (arithmetic mean) to be 40 percent above that of the school ranked midway between the largest and the smallest (the median institution).

INCREASES

Slightly more than one-third of the participating institutions had increases in enrollments between 1969 and 1973. The rest experienced decreases. The range of changes between the years is outlined in figure 2: six had decreases of more than 20 percent; one school's figure was 50 percent. On the other hand, only two had increases of more than 20 percent. Hence, the negative average change of -2.2 percent.

There was also a rough inverse correlation between size of school and enrollment growth or decline. The schools identified in table 1 as having between 100 and 920 students in 1973-74 suffered an average decline of 14.9 percent over 1968-69, while the institutions in the group with between 920 and 1,740 held enrollments virtually constant between 1968 and 1973. The largest

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[1] Calumet College became a separate entity at the end of the period covered by this study and is not treated separately here. Northwood Institute has since reduced its offerings to two years but was a four year institution during this period and is included here.

TABLE 1

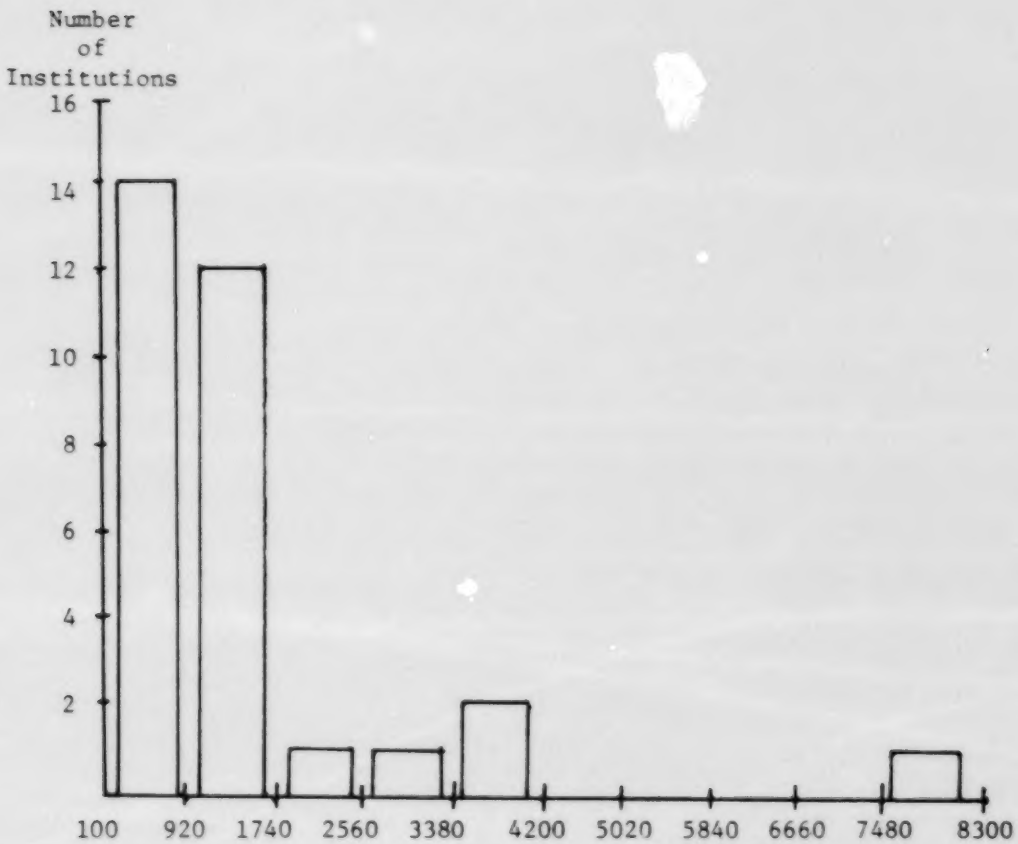
FULL-TIME EQUIVALENT STUDENT ENROLLMENT
1968-69 AND 1973-74

Institution	FTE 1968-69	FTE 1973-74	Percentage Change
Anderson College	1,379	1,512	+ 9.6
Bethel College	419	383	- 8.6
Butler University	2,799	2,903	+ 3.7
Calumet College*	929	1,027	+10.5
Concordia Senior College	488	407	-16.6
DePauw University	2,423	2,223	- 8.3
Earlham College	1,077	1,222	+13.5
Fort Wayne Bible College	522	458	-12.2
Franklin College	752	627	-16.6
Goshen College	1,221	1,118	- 8.4
Grace College	699	866	+23.9
Hanover College	1,040	965	- 7.2
Huntington College	476	454	- 4.6
Indiana Central College	1,456	1,540	+ 5.8
Manchester College	1,449	1,234	-14.8
Marian College	876	770	-12.1
Marion College	683	669	- 2.0
Northwood Institute	380	189	-50.3
Oakland City College	624	420	-32.7
Rose-Hulman Institute of Technology	974	1,007	+ 3.4
St. Francis College	1,109	856	-22.8
St. Joseph's College	1,409	1,042	-26.1
St. Mary's College	1,252	1,504	+20.1
St. Mary-of-the-Woods College	542	327	-39.7
St. Meinrad College	270	220	-18.5
Taylor University	1,272	1,429	+12.3
Tri-State College	2,027	1,370	-32.4
University of Evansville	2,928	3,442	+17.6
University of Notre Dame	7,652	8,214	+ 7.3
Valparaiso University	3,802	3,654	- 3.9
Wabash College	880	778	-11.6
Totals	43,809	42,830	- 2.2

* Prior to 1973-74 Calumet College was St. Joseph's College, Calumet Campus.

FIGURE 1

FTE ENROLLMENT IN
1973-74



institutions in 1973-74, the Universities of Evansville, Notre Dame, Butler and Valparaiso had a combined average enrollment increase of 6 percent. The schools in the 1,740-3,380 ranges had an average increase of 4 percent. In the first group (100 to 920 students in 1973-74), moreover, thirteen declined over 1968-69 while only one advanced; while in the second group (920 to 1,740), five decreased while seven increased. It is clear that the positive growth rates in the larger institutions offsets serious declines in the small ones. Were it not for the four universities mentioned, the overall Indiana enrollment decline would be 7.6 percent, not 2.2 percent.

LOSSES EXCEED GAINS

In financial terms, the overall enrollment decline between 1968 and 1973 was the equivalent of 5.2 percent--appreciably greater than the 2.2 percent decrease in FTE enrollment. That is, revenues from student tuition and fees declined more than enrollment per se. Several factors may have contributed to this deterioration in financial health:

1. As tuition rates rose along with other educational costs, more children of faculty and staff who were recipients of tuition remission may have stayed in their home town and attended their local college;

2. Changes in the mix of full- and part-time students and in their academic and curricular profiles;

3. Increased scholarship aid in the form of tuition subsidies or tuition waivers to needy students (if not recorded as part of tuition receipts);

4. Increase in "discounted" education: more scholarships to "no-need" students.

Whatever the reasons in any particular instance, the fact remains that the greater decline in FTEF enrollment is significant in the financial and managerial sense, because it represents a deterioration in the revenue value of students.

FIGURE 2

PERCENTAGE CHANGE IN FTE STUDENT ENROLLMENT
BETWEEN 1968-69 AND 1973-74

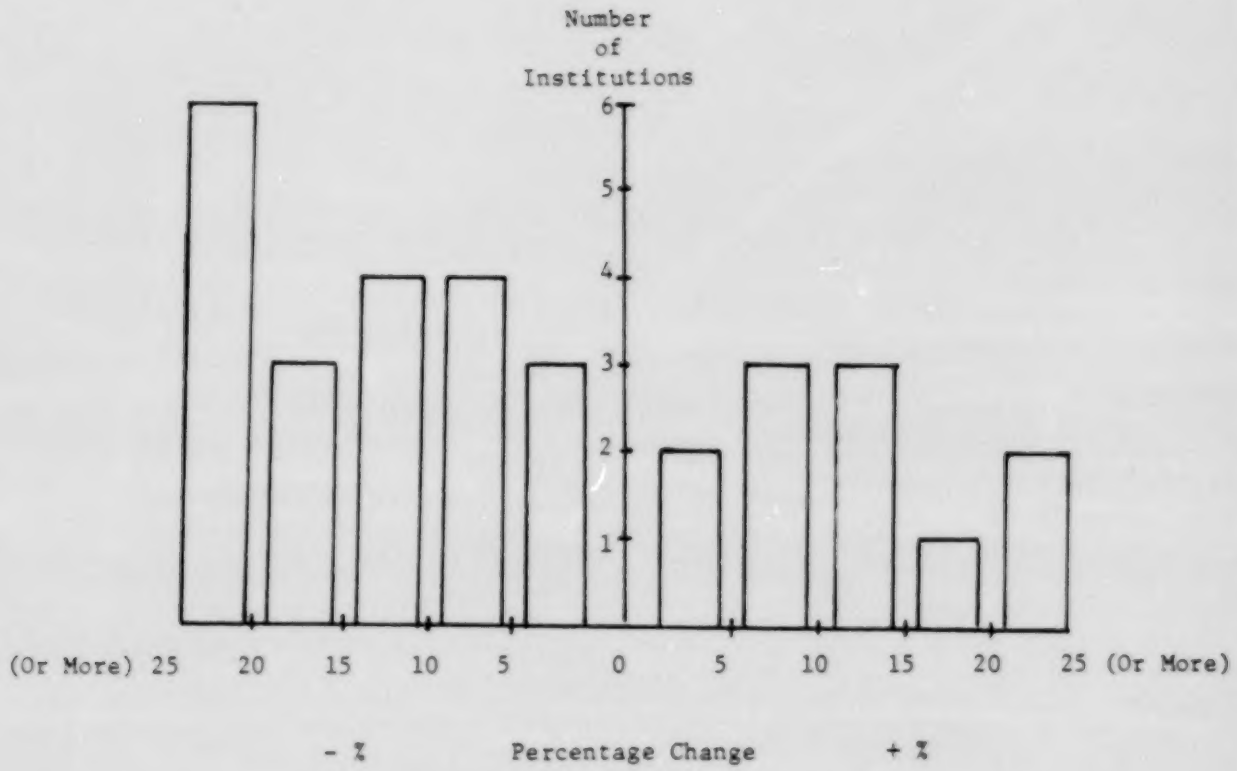


TABLE 2

FULL-TIME FINANCIAL EQUIVALENT STUDENT ENROLLMENT
1968-69 TO 1973-74

Institution	FTEF 1968-69	FTEF 1973-74	Percentage Change
Anderson College	1,364	1,437	+ 5.4
Bethel College	466	400	-14.2
Butler University	2,678	2,529	- 5.6
Concordia Senior College	475	350	-26.3
DePauw University	2,325	2,124	- 8.6
Earlham College	1,094	1,144	+ 4.6
Fort Wayne Bible College	458	453	- 1.1
Franklin College	744	597	-19.8
Goshen College	1,345	1,234	- 8.3
Grace College	--	--	--
Hanover College	1,030	980	- 4.9
Huntington College	501	447	- 7.8
Indiana Central College	1,172	1,379	+17.7
Manchester College	1,431	1,204	-15.9
Marian College	849	737	-13.2
Marion College	701	675	- 3.7
Northwood Institute	401	186	-53.6
Oakland City College	807	489	-39.4
Rose-Hulman Institute of Technology	457	470	+ 2.8
St. Francis College	1,624	1,037	-36.1
St. Joseph/Calumet College*	2,010	2,400	+19.4
St. Mary's College	1,302	1,521	+16.8
St. Mary-of-the-Woods College	499	332	-33.5
St. Meinrad College	--	--	--
Taylor University	1,341	1,342	--
Tri-State College	--	--	--
University of Evansville	2,757	2,450	-11.1
University of Notre Dame	7,556	8,071	+ 6.8
Valparaiso University	3,640	3,460	- 4.9
Wabash College	778	732	- 5.9

* In determining financial statistics the two colleges were viewed as a composite.

APPLICATIONS, ADMISSIONS, AND YIELD

In 1965-66, 71.5 percent of the students admitted in the independent sector in Indiana actually matriculated to the campuses. Less than a decade later that percentage had fallen to 60.5 percent. In order to make up for this declining "yield," the independent sector raised the percentage of admissible students. In 1965, 66.5 percent of all applicants were found admissible. Nine years later that percentage had become 71.2 percent.

These figures can be misleading. Simply because an institution admits a larger percentage of applicants does not mean that quality is adversely affected. One institution that admits virtually 90 percent of all applicants has the highest mean SAT score in the sector--and nearly 250 points higher than the national SAT scores for the same year. There is, in other words, a high degree of self-selection taking place among applicants to this institution, which enables it to maintain the strength its SAT scores convey. Quality, moreover, is what institutions do with and for the students who come to that institution for an education.

What deserves notice, however, is the decrease in the elasticity many of these institutions possessed. After an institution extends its closing date for admissions (right up to the time school begins), after it has availed itself of the small reserve to be found in the group that formerly applied but were not, under former standards, found admissible, where does it turn for additional students?

The decline in students applying to private institutions (and able to pay the way) has been masked in part by the greater diligence of the admissions staff over a longer period of the year and by dipping into the reserve of students earlier judged inadmissible. Now that these elasticities have been stretched almost to their utmost, the decline in enrollment, exacerbated by a decline in students of college age, is apt to become more evident.

ENROLLMENT AND TUITION DIFFERENTIAL

Figure 3 graphs the relationship between the percentage of total headcount students held by the independent sector and the dollar difference in median tuition and fees charges in the public and independent sectors.

In the fall of 1965 when the dollar difference was about $650, the independent sector enrolled 37 percent of the students. By the fall of 1973 when that dollar difference had become about $1,185, the independent sector enrolled almost 10 percentage points less.

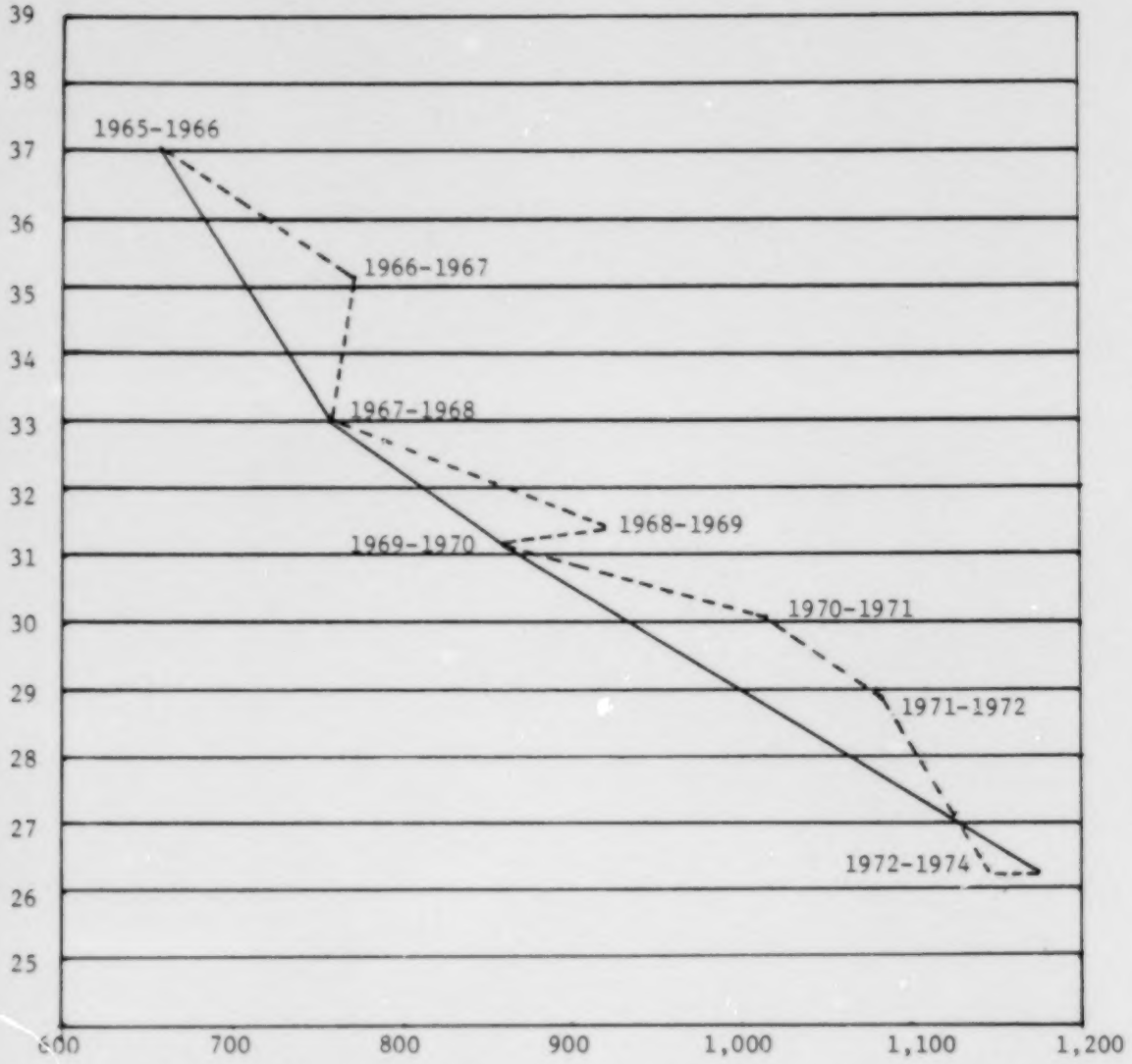


FIGURE 3

PERCENTAGE OF HEADCOUNT STUDENTS IN THE INDEPENDENT SECTOR

CHAPTER II

CURRENT FUND REVENUES AND EXPENDITURES[1]

23 PERCENT INCREASE

Between 1968-69 and 1972-73,[2] total current fund revenues and expenditures increased by 23 percent, from $129 million to $158 million--not quite enough to offset inflation. That is, current fund revenues and expenditures closely paralleled the slight decline in enrollment.

Table 3, which will be referred to several times in the course of this report, summarizes the change in the current financial condition of the Indiana private sector between the two fiscal years for which data were submitted. Adjustments were made in the figures where necessary to ensure the greatest possible degree of consistency between reporting institutions.[3]

Historically, most colleges and universities have operated with narrow current fund surpluses or small losses with the balance being made up from the special funds referred to, so that overall they might continue to function without surrendering assets or endowments in favor of current revenue needs. It is apparent that this practice has changed ominously in Indiana private education since 1969. By 1973, the current

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[1] In the "fund accounting" systems used by colleges and universities, the current fund covers day-to-day activities. It does not include funds received for designated purposes, loan funds, plant funds, or endowment funds. Hence, a reported surplus or deficit is not the same kind of figure as a net profit or loss in a business enterprise.

[2] Hereinafter, referred to as "fiscal 1969" and "fiscal 1973" or simply "1969" and "1973".

[3] One adjustment was to remove depreciation charges from the reported statements of several institutions. It is not common practice at most schools to charge depreciation on their facilities, although this is a useful accounting procedure.

TABLE 3

TOTAL CURRENT FUND REVENUES AND EXPENDITURES, 1968-69 AND 1972-73
(In Thousands of Dollars)

	1968-69 Total	1968-69 Percent	1972-73 Total	1972-73 Percent	Change in Percent	Percentage Change Per Year	Percentage Growth 1968-73
REVENUES							
Tuition & Fees	$62,383	68.4	$80,616	70.4	+ 2.0	+ 0.4	29.2
Endowment	2,791	3.1	4,627	4.0	+ 0.9	+ 0.2	65.8
Gifts & Grants	8,864	9.7	12,029	10.5	+ 0.8	+ 0.2	35.7
Other	17,172	18.8	17,284	15.1	- 3.7	- 0.7	0.7
Total Educational & General	91,210	100.0/70.8	114,556	100.0/72.5	+ 1.7	+ 0.3	25.6
Student Aid	3,421	2.7	5,991	3.8	+ 1.1	+ 0.2	75.1
Auxiliary	34,271	26.5	37,382	23.7	- 2.8	- 0.6	9.1
Total Revenues	128,902	100.0	157,929	100.0			22.5
EXPENDITURES							
Instructional	42,857	48.7	53,026	49.8	+ 1.1	+ 0.2	23.7
Library	3,618	4.1	4,010	3.8	- 0.3	- 0.1	10.8
General & Administrative	21,035	23.9	26,570	25.0	+ 1.1	+ 0.2	26.3
Operations & Maintenance	11,004	12.5	13,752	12.9	+ 0.4	+ 0.1	25.0
Other	9,458	10.8	9,107	8.5	- 2.3	- 0.5	- 3.7
Total Education & General	87,972	100.0/69.1	106,465	100.0/67.8	- 1.3	- 0.3	21.0
Student Aid	8,906	7.0	16,106	10.2	+ 3.2	+ 0.6	80.8
Auxiliary	30,489	23.9	34,530	22.0	- 1.9	- 0.4	13.3
Total Expenditures	127,367	100.0	157,101	100.0			23.3
Transfers	994		1,004				
As % of Total Revenues	0.8%		0.6%		- 0.2	-	
SURPLUS (DEFICIT)	544		(176)				
Tuition and Fees Revenue as Percentage of Total Expenditures	49.0%		51.3%		+ 2.3	+ 0.5	
Endowment Yield	1.8%		1.9%		+ 0.1	-	

II-2

fund surplus for all the schools had changed from a surplus of $544,000 to a deficit of $176,000, a turn-around of nearly three-quarters of a million dollars in just four years. Not only are depreciation charges (as usual) excluded from the surplus and deficit computation, but during this same period the replacement cost of campus facilities increased by at least 25 percent, further reducing the ability of the institutions to keep their physical plants up to date.

TUITION AND FEES INCREASE

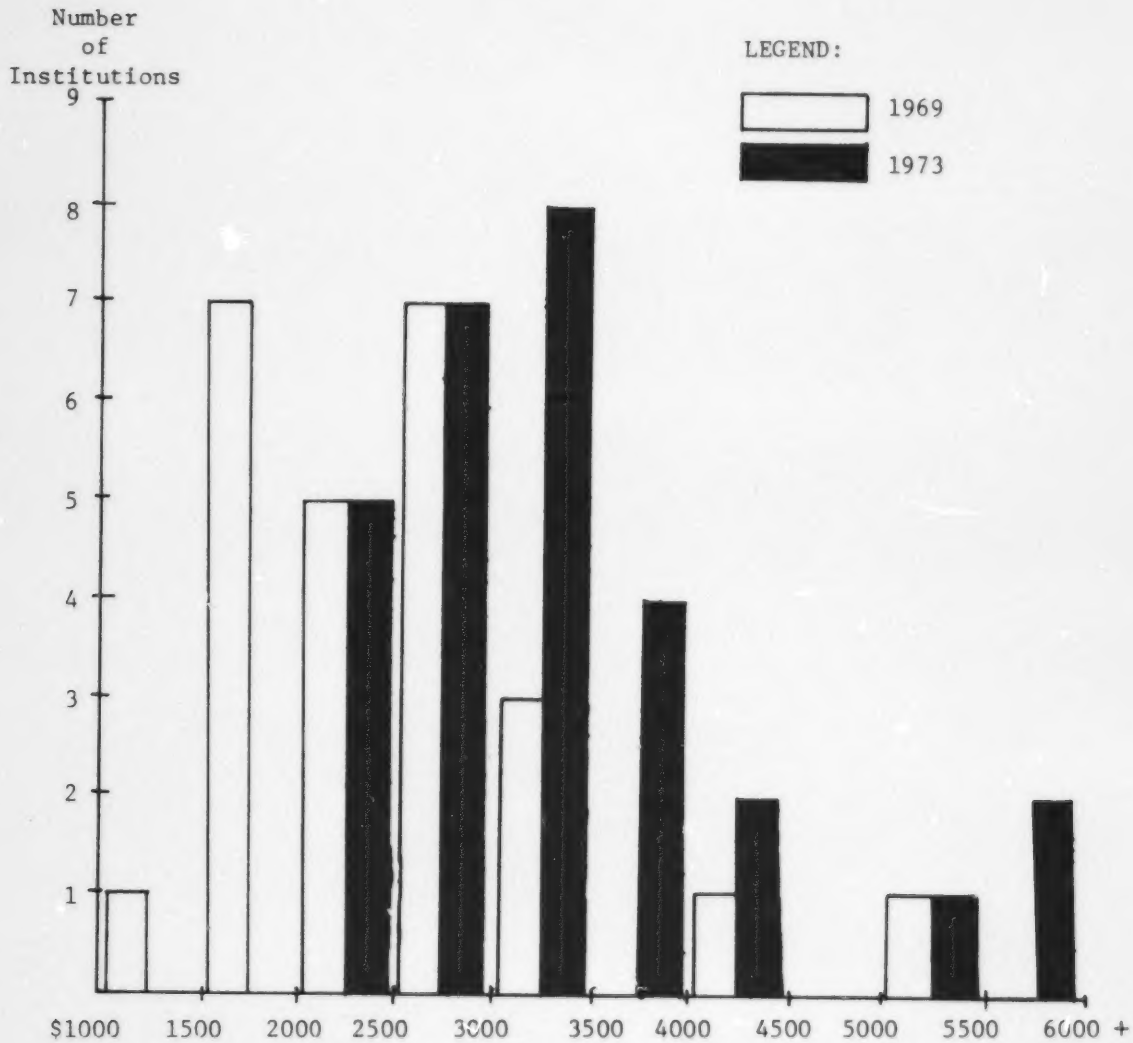
In the schools reporting on this study, tuition and fee revenues increased over the four-year period by 29 percent, from $62.4 million to $80.6 million--notwithstanding their 2.2 percent decrease in full-time equivalent enrollment.

The sector also became more tuition-dependent. Tuition and fee income increased from contributing 68.4 percent to contributing 70.4 percent of total educational and general revenues. The shift was not uniform. Twenty-one schools reported a decreased dependence on tuition as compared with seven who reported an increased dependence. The striking point is that in seven institutions the relative contribution to revenue from tuition and fees has risen so much in four years that the percentage for the entire sector has risen even though the percentage of revenues attributable to tuition and fees actually declined at 21 institutions. On this measure of health, the score is three to one in favor of the healthy. This helps explain why some private colleges are fearful they are pricing themselves out of the market. Tuition is rising there faster than costs. This means that the student there is getting less of a bargain than he did four years ago. He is underwriting more of his own educational costs.

The upward shift in total revenues per full-time equivalent student is illustrated in figure 4, in terms of current dollars, that is, dollars not adjusted for changes in the price level. These private institutions were typically in the $2,500-$3,500 range in 1973 whereas in 1969 most were either in the lower part of this range or below it. Average revenue per student was $1,390 in 1969, and rose to $1,869 by 1973, an increase of 34.5 percent which is noticeably higher than the 29 percent growth in aggregate revenue from these sources. The difference in aggregate percentage growth and per-student percentage growth is accounted for by the decline in enrollment.

FIGURE 4

REVENUES PER FULL-TIME EQUIVALENT STUDENT 1969 AND 1973
(CURRENT DOLLARS)



The reader is cautioned against reading the 1973 bar as representing a higher dollar figure than a 1969 bar in the same range. They fall equally within the range specified.

ENDOWMENTS, GIFTS, AND GRANTS

Combined endowment, gift and grant income rose by 43 percent and represented 10 percent of total current fund revenue in 1973. Endowments, in particular, increased sharply, by 66 percent, during the study period; however, the sums involved here are small, only 2.9 percent of total revenue. In fact, the increase in endowment income was only about a million dollars greater than the loss of tuition and fee income occasioned by the 2.2 percent decline in FTE enrollments. The sharp decline in the stock market since these data were gathered has probably obliterated most of the increase in endowment revenues.

Revenues from all other (and generally minor) sources remained constant in current dollars and therefore declined some 25 percent in purchasing power in the four years. The relative inability of these revenue sources and those derived from auxiliary enterprises to increase meant that even with rising tuition rates, gradually declining enrollments in many institutions constrained overall revenue growth and caused the shift already noted from an overall surplus to an overall deficit on current fund accounts.

EDUCATIONAL AND GENERAL REVENUES EXCEED EXPENDITURES

In the four years under review, total educational and general expenditures[4] in the participating colleges and universities grew by $18.5 million (21.0 percent), while the corresponding revenue items (see top and bottom portions of table 3) increased by $23.4 million (25.6 percent). Operation and maintenance of the physical plant, library costs, and other unspecified expenditure items were fairly stable between the years 1969 and 1973. These will be dealt with in separate chapters, below, along with instructional and administrative cost trends.

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[4] "Educational and General" is a sub-category within the current fund account which embraces instructional functions.

STUDENT AID

Changing student aid is probably the major cause of the current fund deficit. Increases in aid from $8.9 million to $16.1 million reflect: (1) changes in government aid programs, (2) the increase in student needs due to inflation, (3) the desire to recruit more students, and (4) the desire to include more low-income students. Student aid outlays increased by 80.8 percent whereas the student aid revenue item, while it grew 75 percent, advanced only $2.5 million as opposed to the $7.2 million increase in awards.

One of the problems with this analysis, however, is that all colleges and universities do not handle their student aid fund accounting in the same way.[5] Some aid funds may be handled in the "restricted" current fund and not appear on statements such as that represented in table 3. We have, however, taken the net differences reported in this table (the deficit on stated aid revenues) as a measure of the extent to which tuition was discounted--an extent that grew appreciably, as already noted, between 1969 and 1973.

Student aid had the effect of reducing the tuition and fee increases by more than 5 percent:

	1968-69	1972-73	Percentage Increase
Tuition and fees revenue	$62,383,000	$80,616,000	29.2
Net deficit in student aid	5,485,000	10,115,000	84.4
Effective tuition and fees	$56,898,000	$70,501,000	23.9

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5 As already mentioned in this connection, tuition waivers are sometimes used, so that students attend college without paying full fees, and no fund account might be affected at all. This has been cited as one of the possible reasons for the greater decline in revenue per FTEF student than that per FTE student.

That is, over this relatively brief period of time, each dollar of tuition increase in 1973 contributed five cents less to the operating budget than the tuition dollar of 1969. The remainder went for student aid. We alert the reader to the fact that this process did not begin in the years following 1969, but represents a trend from earlier years. That is to say, each dollar increase in tuition in 1969 was probably already contributing thirty cents or more to student aid.

The ratio of student aid expenditures to student aid revenues has remained fairly constant at about 2.6:1. The private sector's commitment to maintaining or trying to increase enrollments through student aid is evidenced by several factors:

1. Only one of the institutions reporting student aid reported a decrease during the study period, and that was only $1,000.

2. Student aid expenditures exceeded student aid revenues in every case where both years were reported on.

3. Student aid revenue has grown at a rate 2½ times as rapid as that of aggregate tuition and fee revenue (80.8 percent vs. 29.2 percent).

4. Student aid revenue has increased as a percentage of total current fund revenues from 2.7 percent to 3.8 percent.

5. Student aid expenditures increased as a percentage of total expenditures from 7.0 percent to 10.2 percent.

6. Student aid expenditures have grown 3½ times as fast as aggregate instructional outlays.

The data from the schools reporting student aid expense ranged in current dollars, as follows:

	1969	1973
Range of student aid per FTES	$12 to $469	$41 to $936
Average student aid per FTES	$219	$373

EDUCATIONAL AND GENERAL EXPENDITURES PER FTE STUDENT

On a per-student basis, as outlined in figure 5, the frequency per full-time equivalent student changed somewhat between the two years.[6] The largest group of schools was in the $1,300-$1,600 range, and most of the rest ranged upwards from this towards $2,200. Interestingly enough, the average for the two years is almost exactly the same, in deflated 1969 dollars--just over $2,000--indicating that the tuition increases have no more than kept pace with prices in general, considering the institutions as a whole.

For the 28 institutions on which data were available, figure 7 portrays in graphic form the steady state of both total and per-student "real" educational and general expenditures between 1969 and 1973. As a rule, the individual institutions followed this same pattern.

LOSSES ON AUXILIARY ENTERPRISES

Colleges and universities operate a number of auxiliary enterprises that support their main educational mission. The most substantial of these are residence halls, food services, and book stores. Students pay for these services separately, over and above their tuition and fees. The funds engendered by these enterprises are not considered part of educational and general expenses, and are segregated in the current fund. In this way they can be "netted out" and examined as to overall surpluses or losses being occasioned by their pricing policies and level of utilization.

At one time, dormitories and related auxiliary enterprises were, at small institutions at least, a source of substantial revenue. However, in recent years, the decline in enrollment coupled with greater student interest in living off-campus has visited colleges and

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[6] The deflators used to adjust current dollar items for changes in prices between 1969 and 1973 were developed by Dr. G. Richard Wynn in his recently completed dissertation at the University of Michigan's Center for the Study of Higher Education. The deflator for 1973 is 126.2 on base year 1969 as 100.

universities with the problem of over-built auxiliary facilities and hence with a decline in their profitability. The desire to live off-campus seems to have lessened, but a further decline in enrollment seems likely.

Even as late as 1969, the first year of data examined in this study, the Indiana institutions were operating their auxiliary enterprises in the black. Only five of them reported deficits. The average surplus was $130,274 per reporting institution. By 1973, this situation had changed considerably. Although the schools still reported auxiliary enterprise surpluses, they had decreased by 30 percent. This decline in net income in auxiliary enterprises is considerably greater than the reported net deficit in the entire current fund. Thus, if the auxiliary enterprises had been either more fortunate or better managed, they might have forestalled the reported current fund deficit in 1973.

These data suggest that the institutions are counting on auxiliary enterprises to supply roughly $100,000 on the average to other educational activities and to student aid in each school. The ability of auxiliary enterprises to do so appears to be weakening. Since this is partly a pricing policy problem, it may be that the inflationary trends of the times are provoking buyer resistance to what might be considered hidden increases in the cost of education.

FIGURE 5

TOTAL EDUCATIONAL AND GENERAL EXPENDITURES
PER FULL-TIME EQUIVALENT STUDENT 1969 AND 1972
(IN DEFLATED DOLLARS)

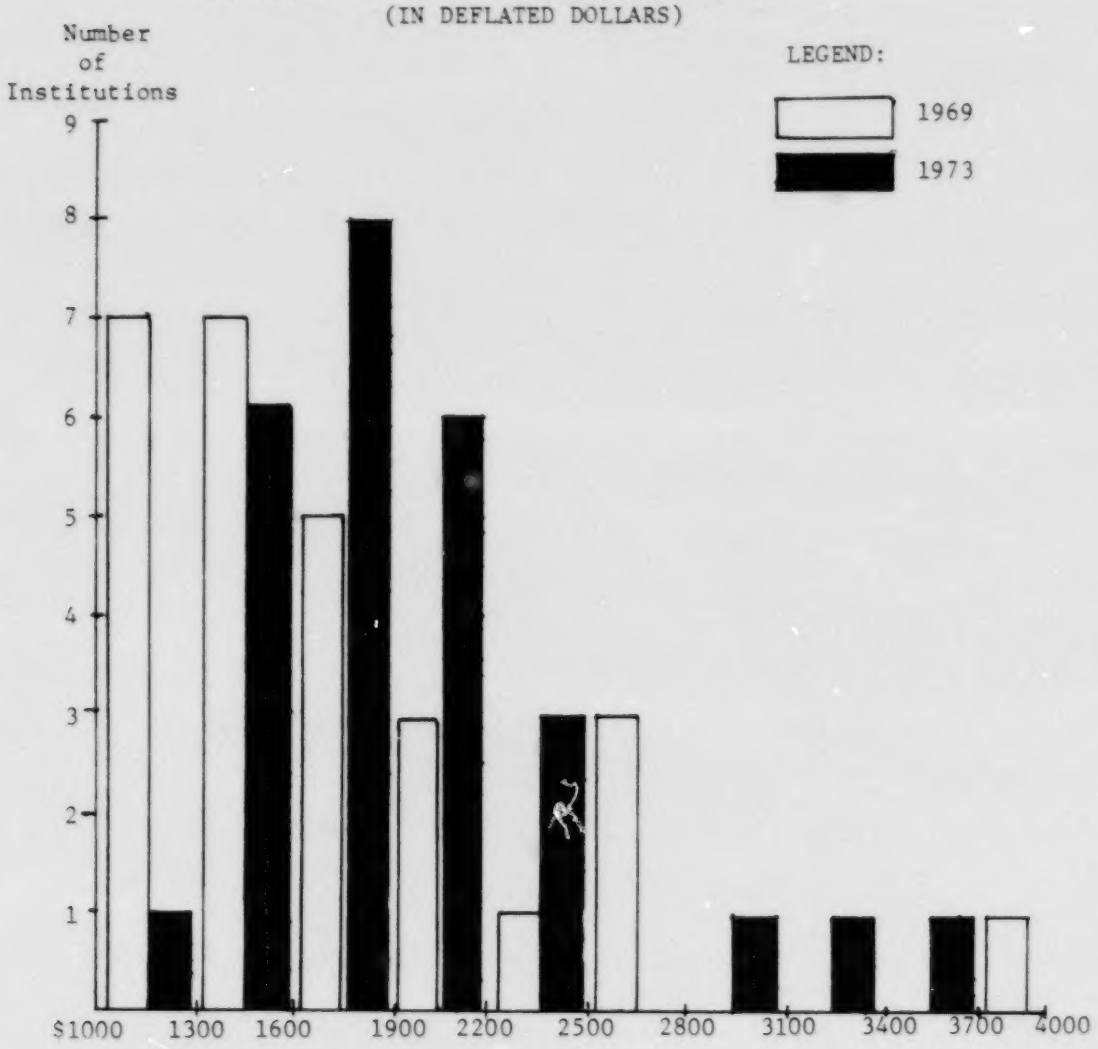
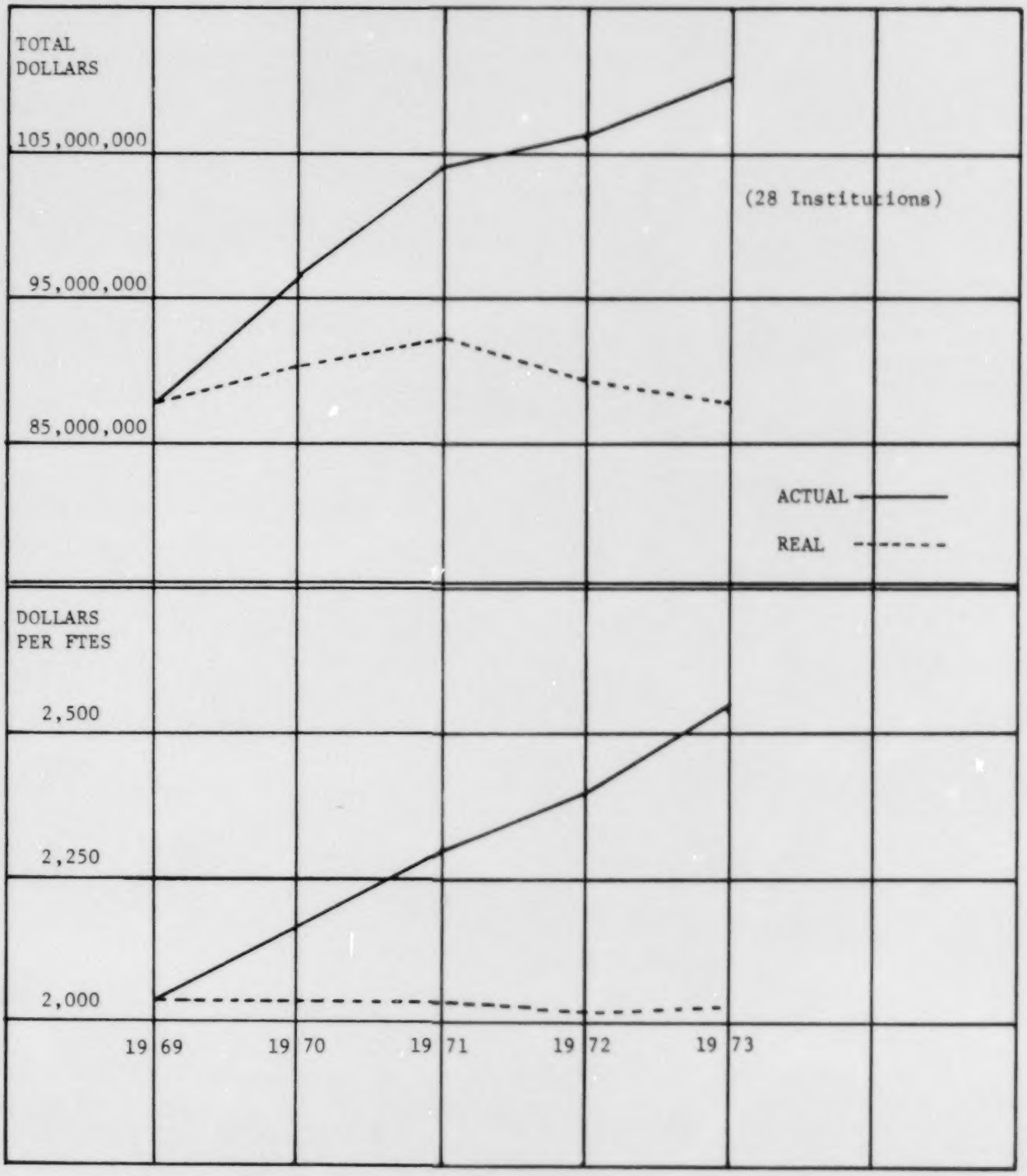


FIGURE 6

EDUCATIONAL AND GENERAL EXPENDITURES
ACTUAL AND REAL TOTAL PER FTE STUDENT
ALL INSTITUTIONS



CHAPTER III

INSTRUCTIONAL EXPENDITURES

From 1969 to 1973, instructional expenditures, constituting half of total outlays, increased less than tuition and fee revenues. As summarized in table 3, total instructional expenditures increased from $42.9 million to $53.0 million (23.7 percent), or $10.1 million in undeflated (current) dollars. This compares with a 29.2 percent increase in tuition and fee revenues in the same period. (We have already explained how increased student aid and decreased revenues from auxiliary enterprises have more than absorbed the additionally generated tuition dollars.)

We get a better view of the trends if we convert the data to constant 1969 dollars. Because of the increase of about 25 percent in prices and costs, wage and salary rates, the real increase in instructional costs was extremely small, almost minuscule; and this is true whether one looks at aggregate real dollars or at real costs per FTE student. The disparity between current and deflated costs is portrayed graphically in Figure 7.

Figure 8 further illuminates the interyear trends by displaying the ranges of real instructional expenditures per full-time equivalent student in the two years under study. The average expenditure for instruction per student was $987 in 1969, and in constant (1969) dollars this amount had increased to only $1,002 by 1973 (a gain of only 1.5 percent). The bars in figure 8 suggest that this change came about largely by the rise in average instructional expenditures in the schools at the low end of the scale. For example, in 1973, there were no longer any institutions with average real instructional expenditures below $540, whereas in 1969 there were five with expenditures as low as this. Otherwise, the distribution is little changed.

FIGURE 7

INSTRUCTIONAL EXPENDITURES
ACTUAL AND REAL TOTAL & FTES DOLLARS
ALL INSTITUTIONS

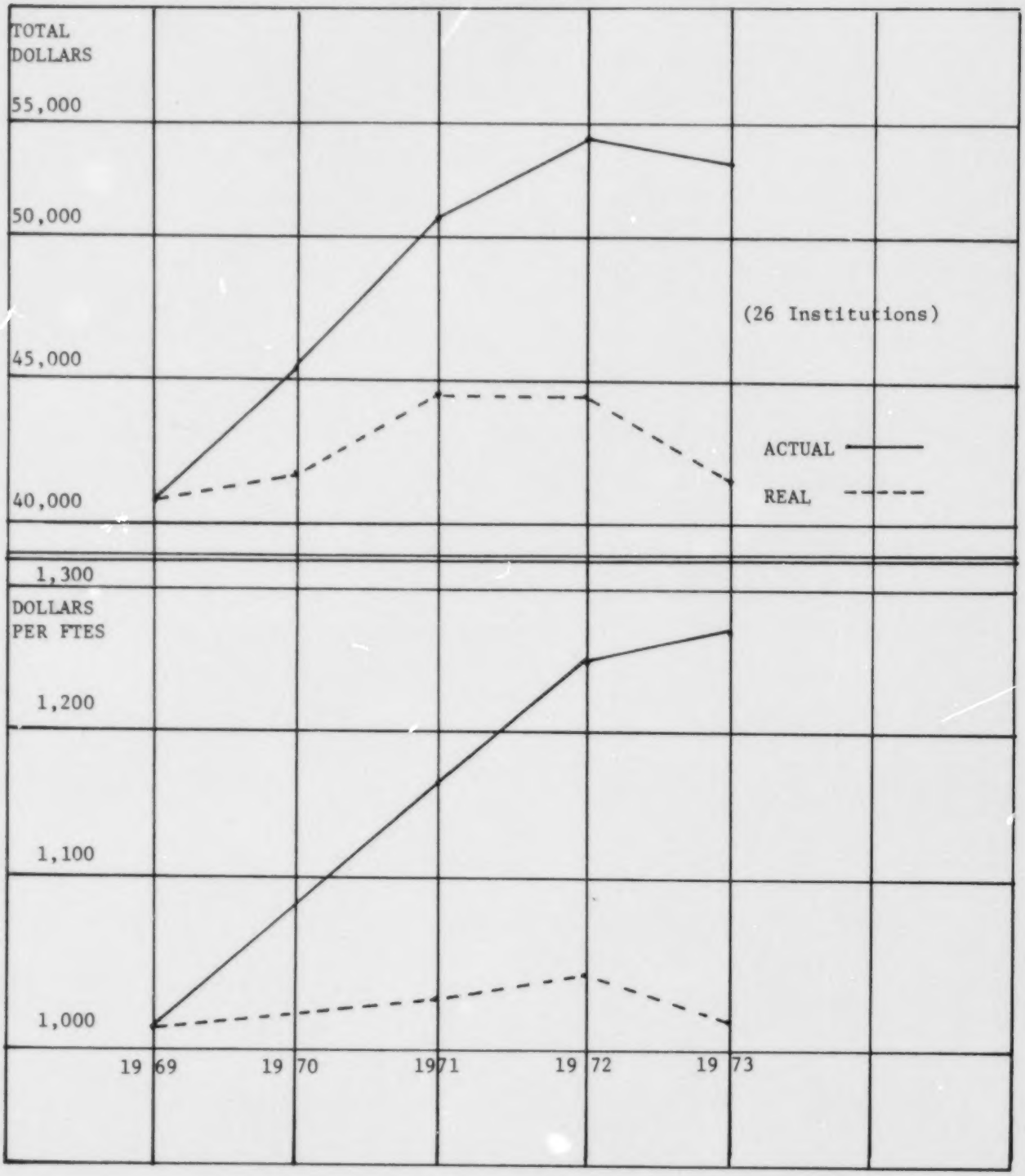
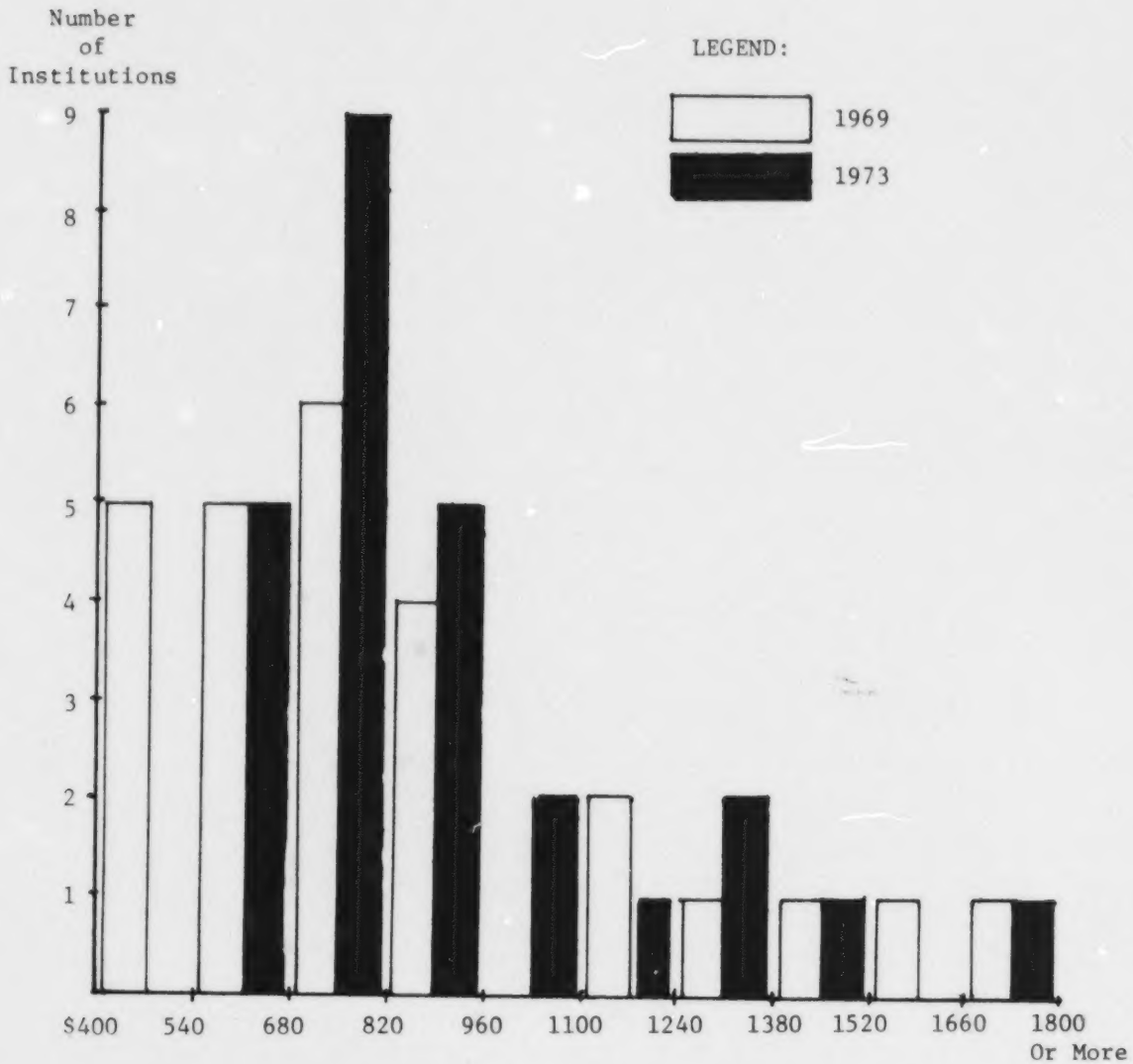


FIGURE 8

INSTRUCTIONAL EXPENDITURES PER FULL-TIME EQUIVALENT STUDENT 1969 AND 1973 (IN DEFLATED DOLLARS)



CHAPTER IV

LIBRARIES

Library budgets declined both in constant dollars and as a proportion of educational and general expenditures. Although library expenditures increased from $3.6 million to $4.1 million during the study period--an increase of 10.8 percent--they declined marginally (-0.3 percent) as a percentage of educational and general expenditures. (See table 3).

As portrayed in figure 9, the aggregate real (deflated dollar) library costs of 21 reporting institutions declined from $3.3 million to $3.1 million. The decline in real costs per FTE student is even more pronounced, although the steady decline was halted in 1971-72. In per-student real terms, outlays declined from $103 in 1969 to $91 in 1973, a drop of 10.7 percent. This contrasts with an increase in current dollar terms of 12.6 percent, from $103 to $116. Thus, an apparent thirteen dollar increase per student was actually a twelve dollar decrease.

As figure 10 indicates, the real per-student expenditure of libraries was more narrowly concentrated in 1973 than in 1969. In 1969, seven institutions had expenditures per student in the $48-$86 range. In 1973, twelve institutions fell within that range. Some institutions rose up to that range (often as a result of a drop in enrollment), while others fell down to it. Thus, in some schools, expenditures per student increased in "service" terms, while in others it decreased.

In 1969, salaries consumed a far lower percentage of library budgets than they did in subsequent years. At the median institution in that year, salaries accounted for slightly over half the library budget. The range was from 29.4 percent to 63.3 percent.

By 1973, the percentage devoted to salaries at the median institution had risen to 58.5 percent. The lowest percentage was 38.2 percent and the highest had reached 72.2 percent. Thus the low, the median, and the high all increased roughly ten percentage points. The whole scale has been sliding upward. These increases in the percentage of total library budget devoted to salaries occurred in five-sixths of the institutions

reporting. The others did not experience growth in the relative weight of salaries in their library budgets.

Improved services may have accompanied these higher salary percentages. But even so, it is apparent that increased salaries have left a diminished remainder for periodicals, monographs, serials, microfilm, other audio-visuals, and the like.

The deflator index u. d above for the library budget as a whole may be a conservative one. Between 1969 and 1973 hardcover books inflated 139.1 percent, serials inflated 142.9 percent, and periodicals inflated 187.1 percent. It is not surprising, therefore, that 22 (of 28) institutions were spending less on hardcover books in 1973 than in 1969 in deflated dollars, and 24 were spending less on periodicals.

FIGURE 9

LIBRARY EXPENDITURES
ACTUAL AND REAL TOTAL & FTE DOLLARS
ALL INSTITUTIONS

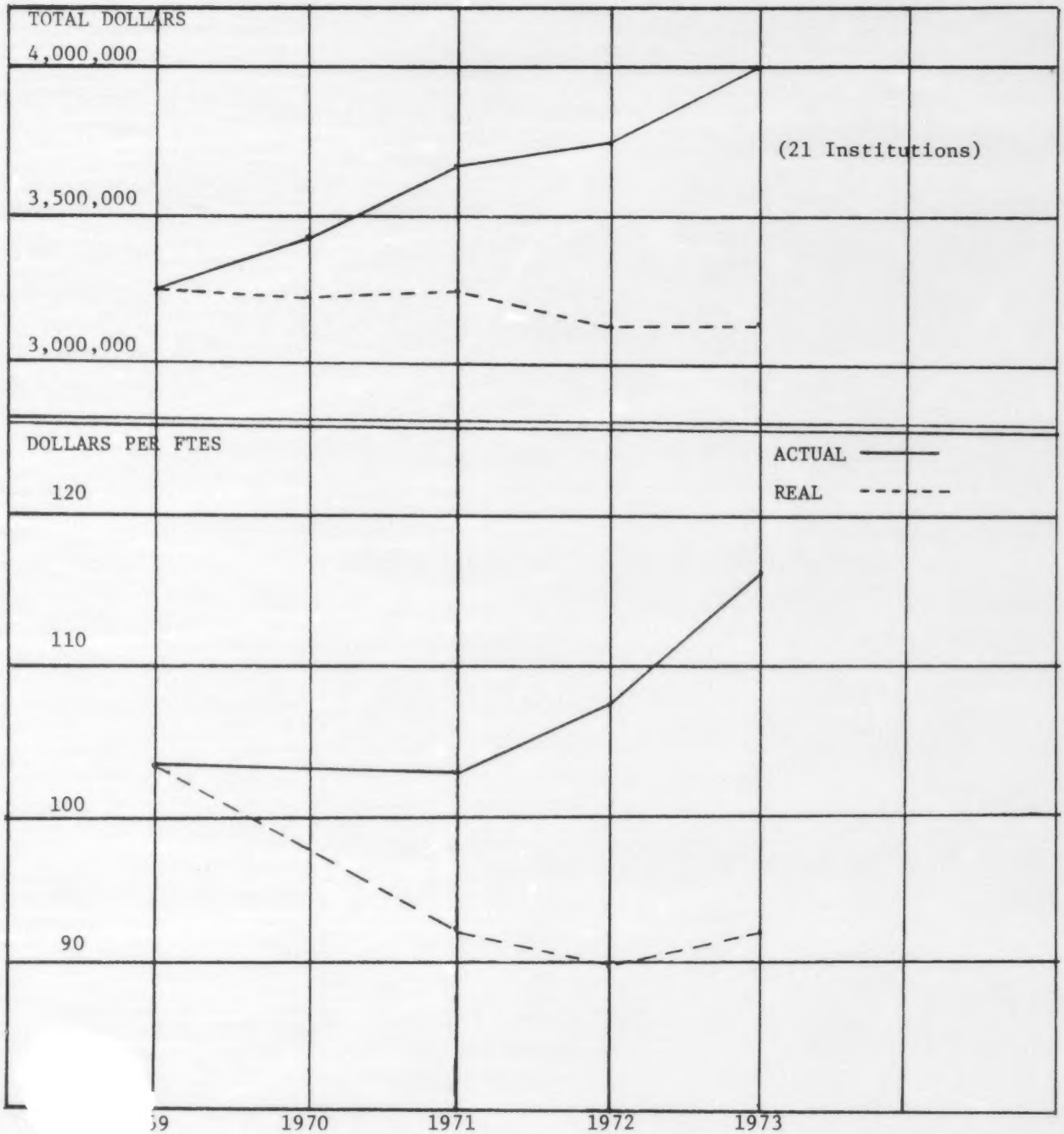
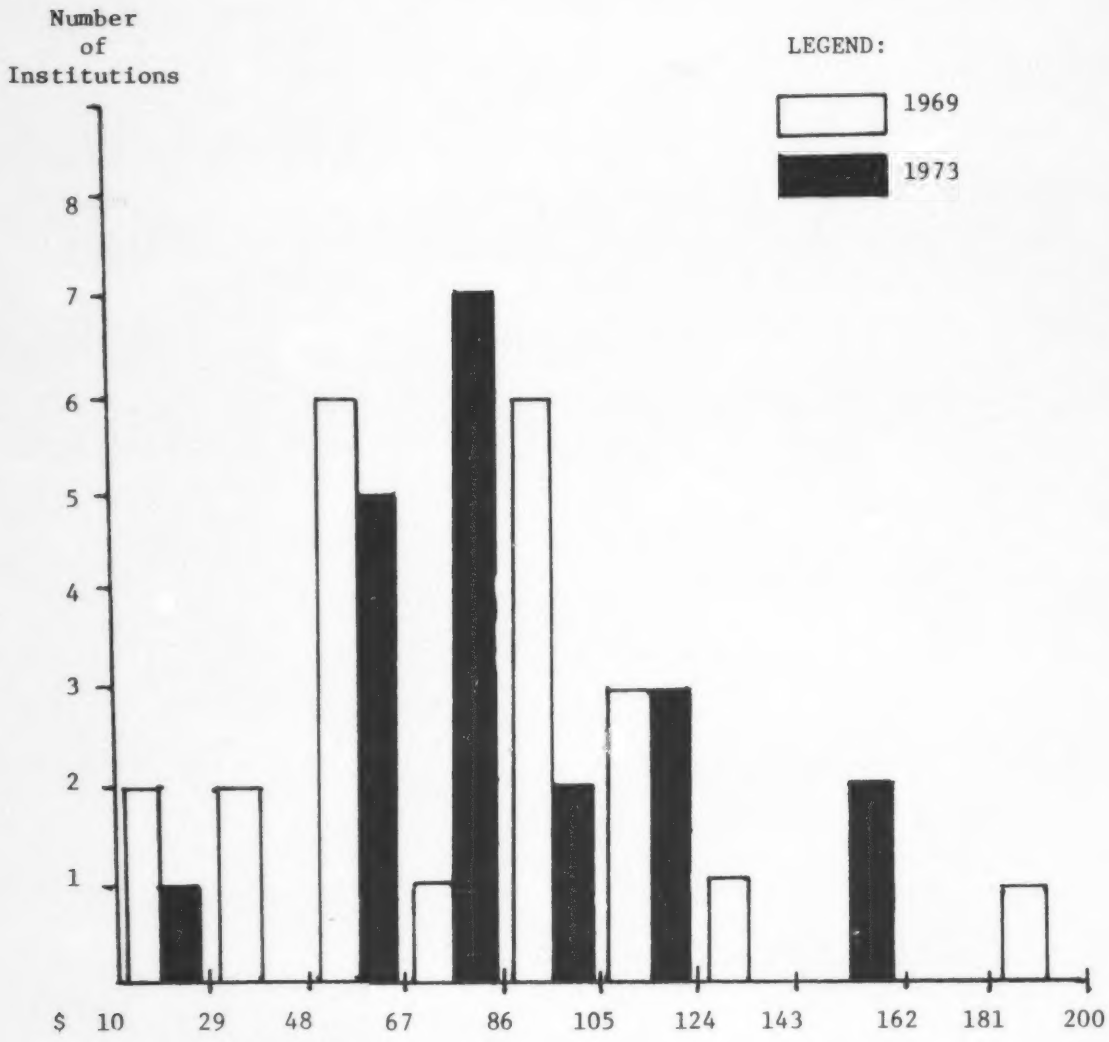


FIGURE 10

LIBRARY EXPENDITURES
PER FULL-TIME EQUIVALENT STUDENT 1969 AND 1973
(IN REAL DOLLARS)



CHAPTER V

ADMINISTRATION

General and administrative expenditures increased more than any other major category of expense. Referring again to table 3, one can see that general and administrative expenditures are (1) second only to instructional costs in the list of educational and general expenditure items, and (2) increased by 26.3 percent between 1969 and 1973 as contrasted with a smaller increase of 23.7 percent in the costs of instruction.

The Indiana schools covered by this study exhibit the common characteristic of spending half their educational and general funds on instruction. The instructional portion in fact rose slightly during the period under review, as we have already seen. In 1969, administrative costs were equal to 49.0 percent of instructional costs. By 1971 they had increased slightly to 50.1 percent.

The contrasting trends of instructional and administrative cost can be seen through a comparison of figure 7 and figure 11 below. While both categories of expenditure have increased absolutely in current dollars, only general and administrative costs have increased in both current and deflated (1969) dollars. The contrast is especially noteworthy when the data are expressed on a per-student basis.

During the period under study, the administrative costs per FTE student increased 29 percent--from $410 to $530, as shown in figure 11. Deflated, however, the percentage of increase is reduced to 4.8 percent, and on a constant 1969-dollar basis, the increase is reduced from $530 current dollars per student to $430 constant dollars per student for a net real increase of $20 per student.

In figure 12, the distribution of real administrative costs per FTE student is shown for the years 1969 and 1973. The distribution of the changes in these costs remained fairly constant. The shape of the profile for 1973 is not markedly different from that of 1969 except for an increase of three schools with administrative costs per student above $640. The main feature is a slight general upward movement as indicated by a shift to the right of the bars in the figure. The largest group (six institutions) is now in the $400-$460

range. It is apparent that most schools have moved up one or two cost ranges in the years under review.

Several factors have contributed to the apparent inflationary trend of administrative costs. One is the rigidity of many overhead costs which do not decline with declines in enrollment. Educational management structures have minimum configurations that are difficult to escape. Some administrative costs are virtually fixed costs, just like some instructional costs. A college must continue to operate the Registrar's Office even if the student body drops 5 percent, just as it must retain the tenured core faculty of the Department of History.

There <u>are</u> offices in which it is possible to reduce manpower and to increase the productivity of staff, but even here, remedial actions cannot always be swift. The need to retain a certain level of service to students, to say nothing of humanitarian considerations for the administrative staff involved, acts as a deterrent to rapid response to changing conditions.

Moreover, and perhaps more to the point, American educational institutions tended to be undermanaged in the expansionist days of the 1940's, 1950's, and early 1960's. Then, enrollments and incomes were rising, government grants were bountiful, and problems of both internal accountability and external recruiting and fund-raising were relatively insignificant by today's standards. The situation has changed. Schools have had to become marketing oriented and development conscious. In doing so, they have had to increase their administrative support staff in an attempt to preserve their educational mission and to provide more assured livelihoods for faculty and administration alike.

FIGURE 11

GENERAL AND ADMINISTRATIVE EXPENDITURES
ACTUAL AND REAL TOTAL & FTES DOLLARS
ALL INSTITUTIONS

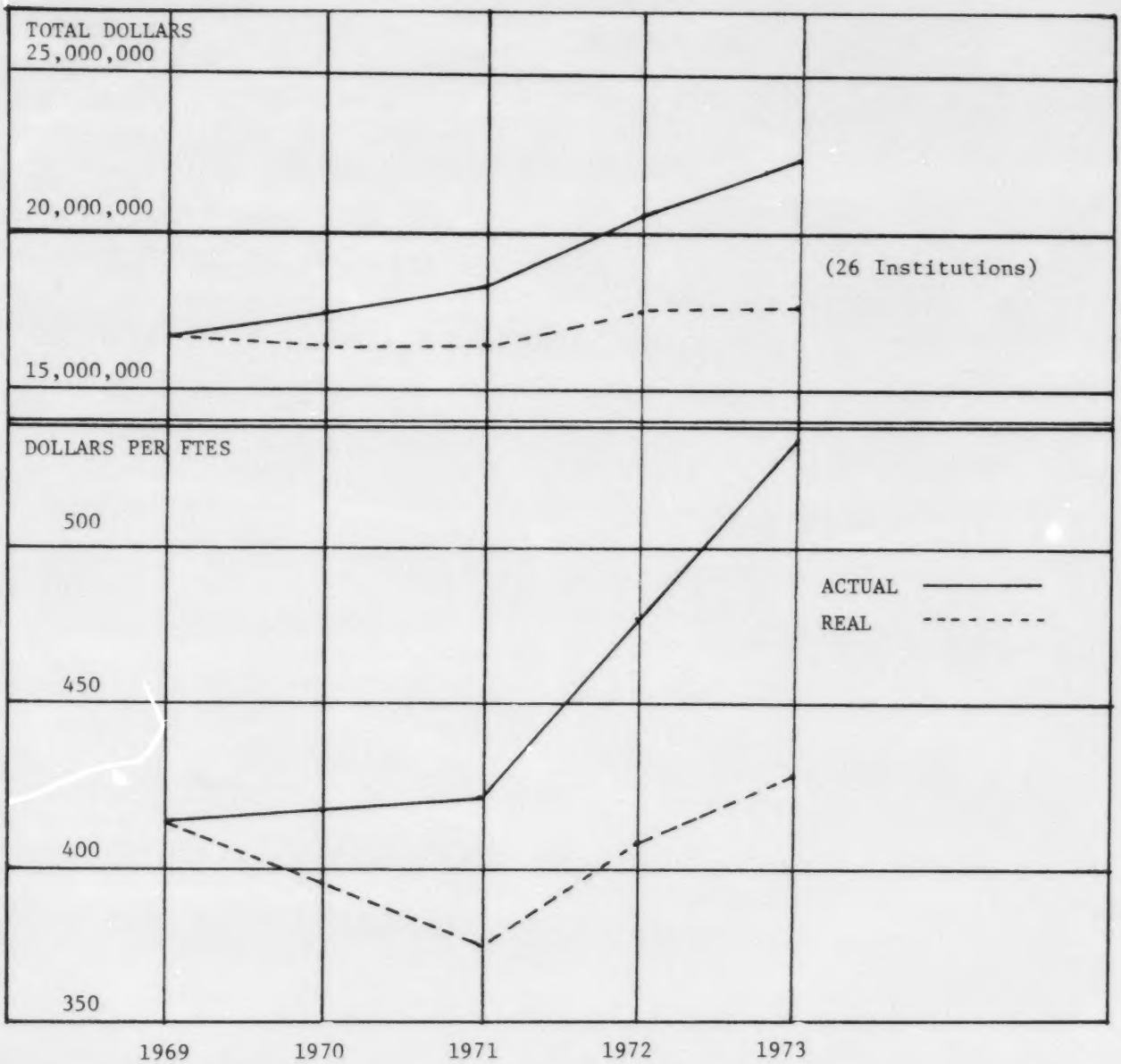
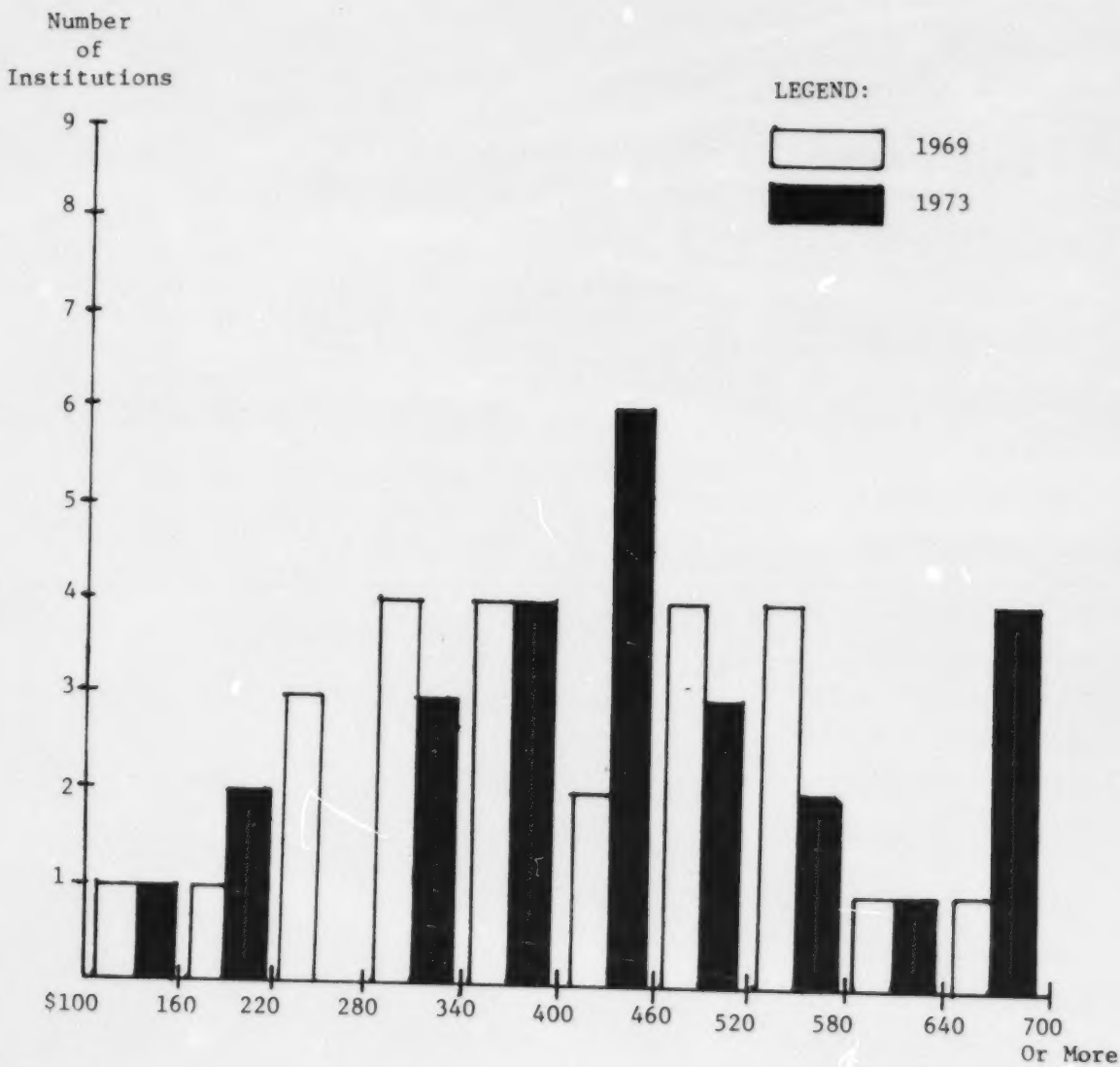


FIGURE 12

GENERAL AND ADMINISTRATIVE EXPENDITURES
PER FULL-TIME EQUIVALENT STUDENT 1969 AND 1973
(IN DEFLATED DOLLARS)



CHAPTER VI

OPERATION AND MAINTENANCE

Operation and maintenance expenditures for the participating schools were $11.0 million in 1969, and increased 25 percent to $13.8 million by 1973. These increases are, proportionately, slightly higher than those in instruction and slightly lower than administrative expenditures.

A 25 percent increase in operation and maintenance expenditures--physical plant services, repairs, groundskeeping--is barely enough to compensate for increases in wages and other price increases. Institutions have been exerting a firm control over these expenditures. This is probably a financial necessity rather than a desirable ideal. There is some evidence that campuses are being inadequately maintained with maintenance a secondary priority, while faculty and staff salaries or student aid, for examples, take higher priorities. To the extent that this happens, the institution is in effect "mining" its facilities and treating them as expendable, nonreplaceable resources. Such a policy conducted under necessity is a sign of financial illness. Some neglected maintenance (like not mowing the grass) may merely result in shabbiness; but some may result in much larger repair and renovation costs in the future.

CHAPTER VII

BALANCE SHEETS IN "FUND" TERMS

TOTAL ASSETS

Between 1969 and 1973, as indicated in table 4, total college and university assets in the Indiana private sector increased by $196.9 million (32.6 percent) from $603.1 million to $800 million. In terms of educational fund accounting, these asset increases have to be matched with corresponding current or long-term liabilities, or with net fund balances in the current fund, loan fund, endowment fund, annuity and life fund, or plant fund.

Different institutions manage their affairs in different ways, so that we were obliged to make adjustments in some cases to report statistics as compatible as possible with the recommended accounting conventions of the National Association of College and Business Officers and to maximize the consistency and comparability of data used in our analysis.

The asset increase of 32.6 percent was not distributed evenly among the 29 institutions, as figure 13 reveals. One had marginal decrease (not shown), and eleven had cumulative changes of less than $2.5 million. The statistics on asset increases are thus heavily weighted by three institutions with gains exceeding $20 million each. These three totalled $95 million or 48 percent of the entire asset growth of all the institutions. With these three institutions subtracted from the total, the asset growth for the remainder plummets to 16.9 percent, or less than the increase caused by inflation.

TABLE 4

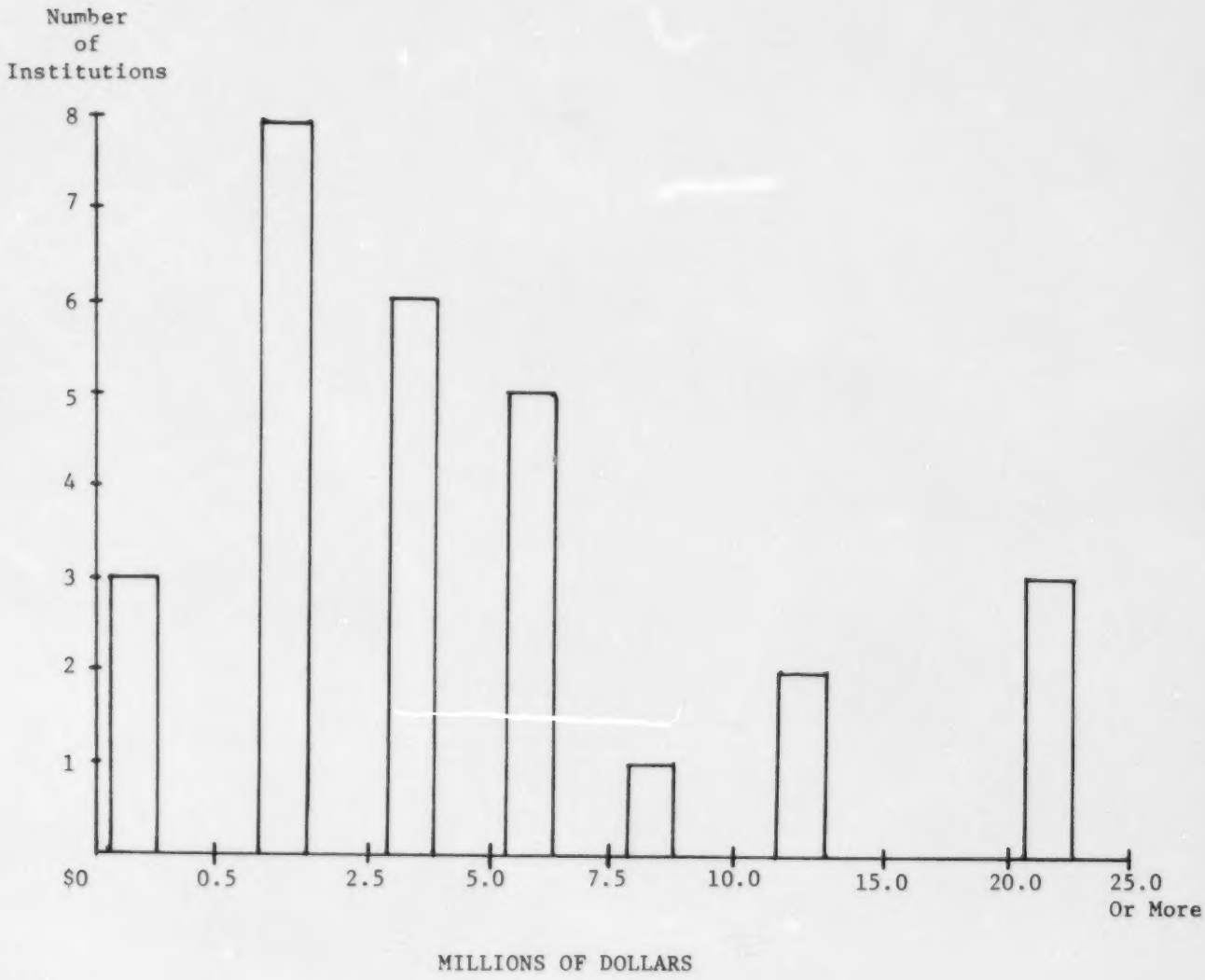
BALANCE SHEET ANALYTICAL DATA
(In Thousands of Dollars)

	----1968-69----			----1972-73----			Change in Percent	Increase in $	% Growth 1968-73
	Total $	FTES $	% Total	Total $	FTES $	% Total			
ASSETS									
Total Current	41,235	962	6.8	55,759	1,292	7.0	+0.2	14,524	35.2
Loan	17,959	413	3.0	26,924	636	3.4	+0.4	8,965	49.9
Endowment	155,506	3,742	25.8	240,230	5,914	30.0	+4.2	84,724	54.5
Annuity & Life	9,053	220	1.5	11,299	280	1.4	-0.1	2,246	24.8
Plant	378,073	8,714	62.7	464,906	10,977	58.1	-4.6	86,833	23.0
Unexpended	25,570		4.2	35,795		4.5		10,225	
Investment	352,503		58.5	429,111		53.6		76,608	
Agency	1,310	28	0.2	920	23	0.1	-0.1	(390)	(30.0)
TOTAL ASSETS	603,136	14,079	100.0	800,038	19,122	100.0		196,902	32.6
LIABILITIES									
Total Current	22,924		21.4	29,088		24.8	+3.4	6,164	26.9
Plant	80,046		74.9	84,152		71.9	-3.0	4,106	5.1
Other	3,914		3.7	3,886		3.3	-0.4	(28)	(0.7)
TOTAL LIABILITIES	106,884		100.0/ 17.7	117,126		100.0/ 14.6	-3.1	10,242	9.6
FUND BALANCES									
Total Current	18,315		3.7	26,670		3.9	+0.2	8,355	45.6
Loan	17,452		3.5	26,492		3.9	+0.4	9,040	51.8
Endowment	153,939		31.0	238,109		34.9	+3.9	84,170	54.7
Annuity & Life	8,520		1.7	10,890		1.6	-0.1	2,370	27.8
Plant	298,026		60.1	380,751		55.7	-4.4	82,725	27.8
TOTAL FUND BALANCES	494,252		100.0/ 82.3	682,912		100.0/ 85.4	+3.1	186,660	37.6
Current Fund Accounts & Notes Receivable:									
As % of Total Current Assets	5,446			4,751					
As % of Tuition & Fees Revenue									

A - Totals include all institutions. FTES computation based on 27 institutions.

FIGURE 13

CUMULATIVE CHANGES IN TOTAL ASSETS 1969 TO 1973
(IN MILLIONS OF DOLLARS)



ENDOWMENT AND LOAN FUNDS

Between 1969 and 1973, endowment funds for the sector increased 54.5 percent from $156 million to $240 million, a gain of $84 million. Examination of the returns from participating institutions demands that this statistic be severely qualified: it reflects a few very large donations to an equally small number of institutions, not a general growth in endowment funds among all institutions in the study.

The absolute growth in loan assets is small in dollar terms ($9 million) but the large percentage jump (50 percent) between 1969 and 1973 reinforces our earlier observation about the increasing importance of student aid in Indiana's private colleges. This charitable outlay is a form of marketing expense as well as a symbol of dedication and goodwill. Students have to be attracted, served, and retained. The pressure to follow this pragmatic policy increased during the period covered by this study.

Like assets in general, endowment and loan fund assets exhibited differing growth characteristics in different colleges and universities. These disparities can be seen in figures 14 (endowment) and 15 (loan fund assets).

The endowment cushion is extremely thin. Even in 1973, eleven of the schools had virtually no endowments--less than $1,000 per FTE student. Only three of those with data for both years had more than $15,000 in 1973. As figure 14 indicates, there was no marked improvement on the part of the less well-endowed institutions over the years studied in current dollars let alone in constant dollars. Bear in mind, too, that the equities market has declined well below where it was when these figures were taken.

The loan fund changes illustrated in figure 15 are more satisfactory. A significant upward (right) shift has occurred.

FIGURE 14

ENDOWMENT ASSETS PER FULL-TIME EQUIVALENT STUDENT
1969 AND 1973

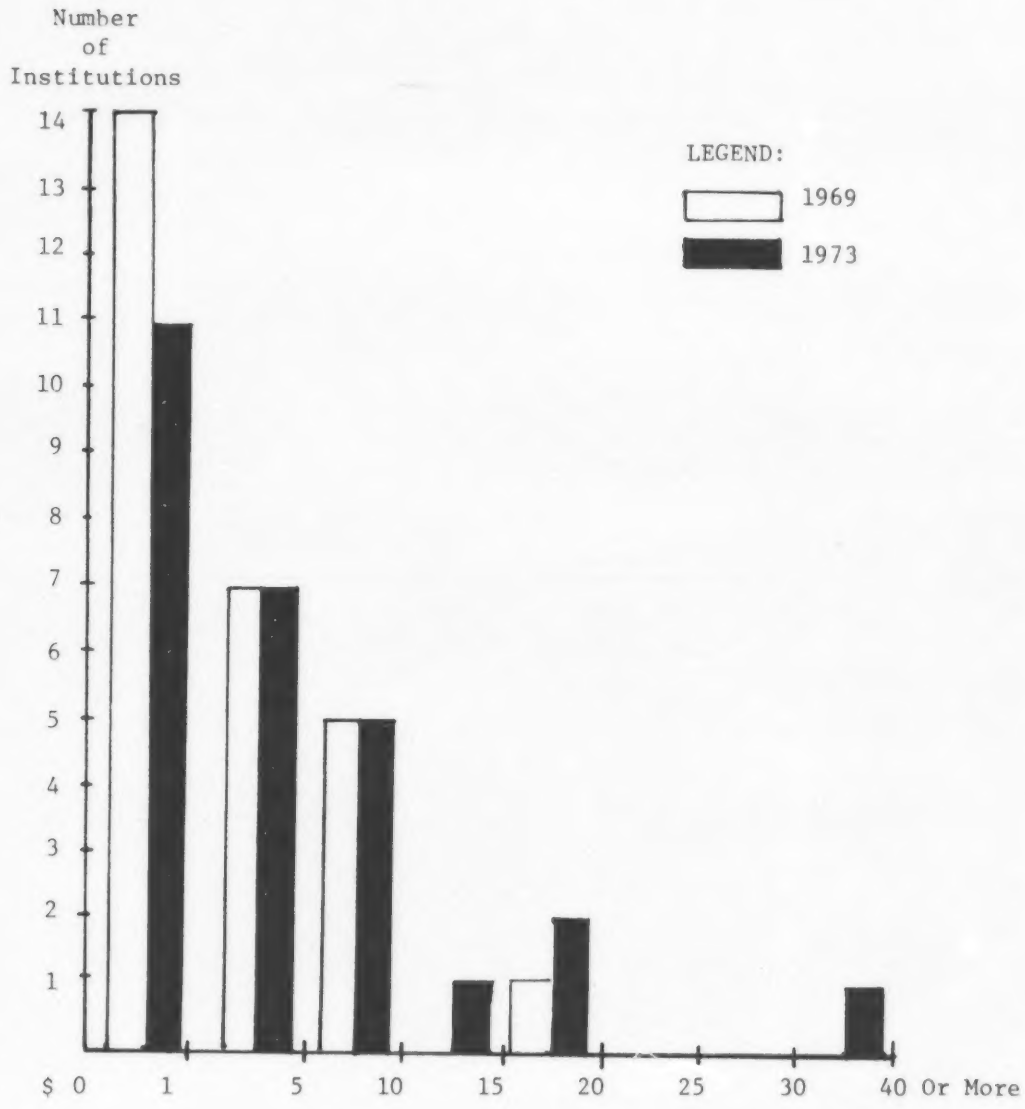
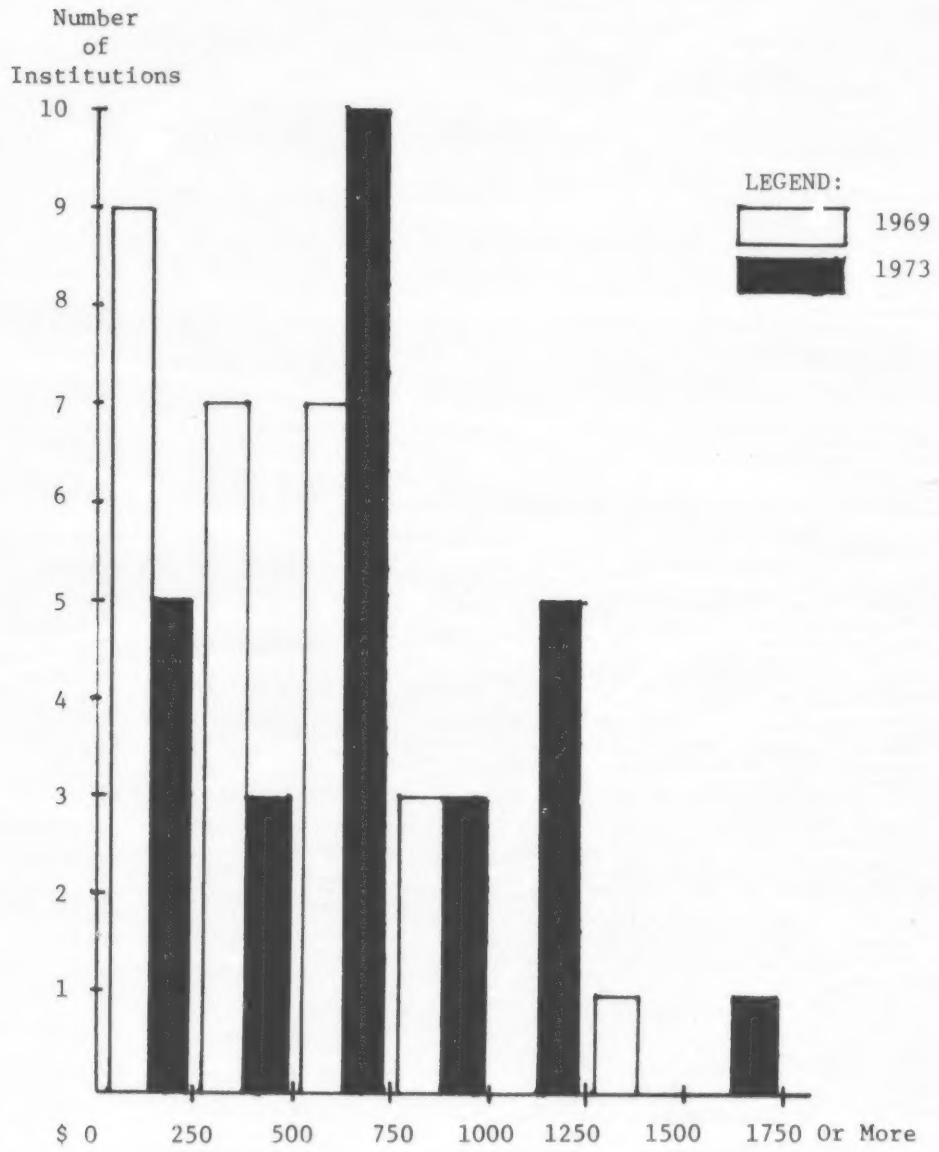


FIGURE 15

LOAN FUND ASSETS PER FULL-TIME EQUIVALENT STUDENT
1969 AND 1973



CURRENT FUNDS

In the period under review, current fund balances in the participating schools increased by $8.4 million (45.6 percent), but there was no real change (0.2 percent) in the relative share of total assets represented by balances in this basic fund.

As sketched graphically in figure 16, the accumulated surpluses and deficits between 1969 and 1973 were distributed variously among the institutions. Thirteen decreased while twelve increased less than half a million dollars. The three institutions with accumulated surpluses of between one-half million and five million dollars each accounted for the bulk of the overall gain for the sector.

Figure 17 shows the changing picture of accumulated surpluses and deficits reflected in terms of the full-time equivalent student. In 1973, four schools had $1,500 to $5,500 in current assets per student in contrast to the modal group of fourteen with $250 to $750 per student. Figure 17 indicates an upward shift, but little change in the 1969 inter-institutional distribution.

ANNUITY AND LIFE FUNDS AND PLANT FUNDS

Fund balances in accounts for payments on annuity and life insurance contracts and for plant maintenance and expansion grew by $2.4 million and $82.7 million respectively during the period under review--in each case a growth of 27.8 percent.

On the asset side (see top part of table 4), the plant fund balance growth was paralleled with a $76.6 million growth in investment in physical facilities. Plant assets per FTE student are portrayed in figure 18 where the modest relative growth between 1969 and 1973 is indicated in relation to enrollment. Except for changes at the extremes (under $5,000 per FTES and above $20,000 per FTES), the distribution did not change markedly.

FIGURE 16

CHANGES IN CURRENT FUND ACCUMULATED SURPLUS OR DEFICIT
1969 TO 1973 (IN MILLIONS OF DOLLARS)

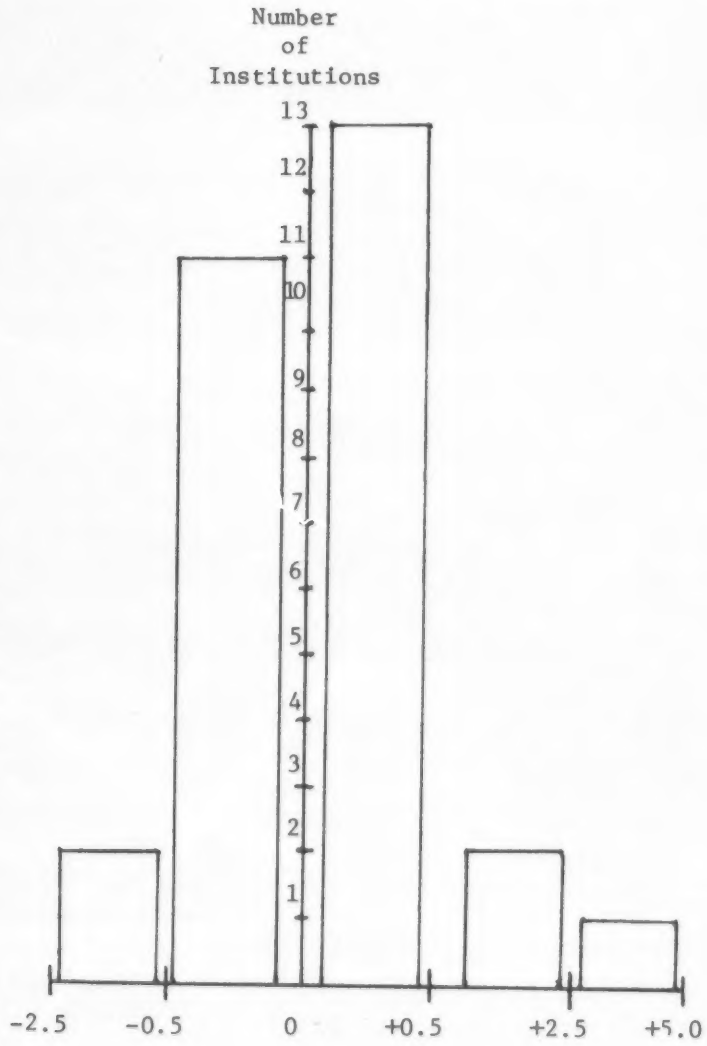


FIGURE 17

CURRENT FUND ASSETS PER FULL-TIME EQUIVALENT STUDENT
1969 AND 1973

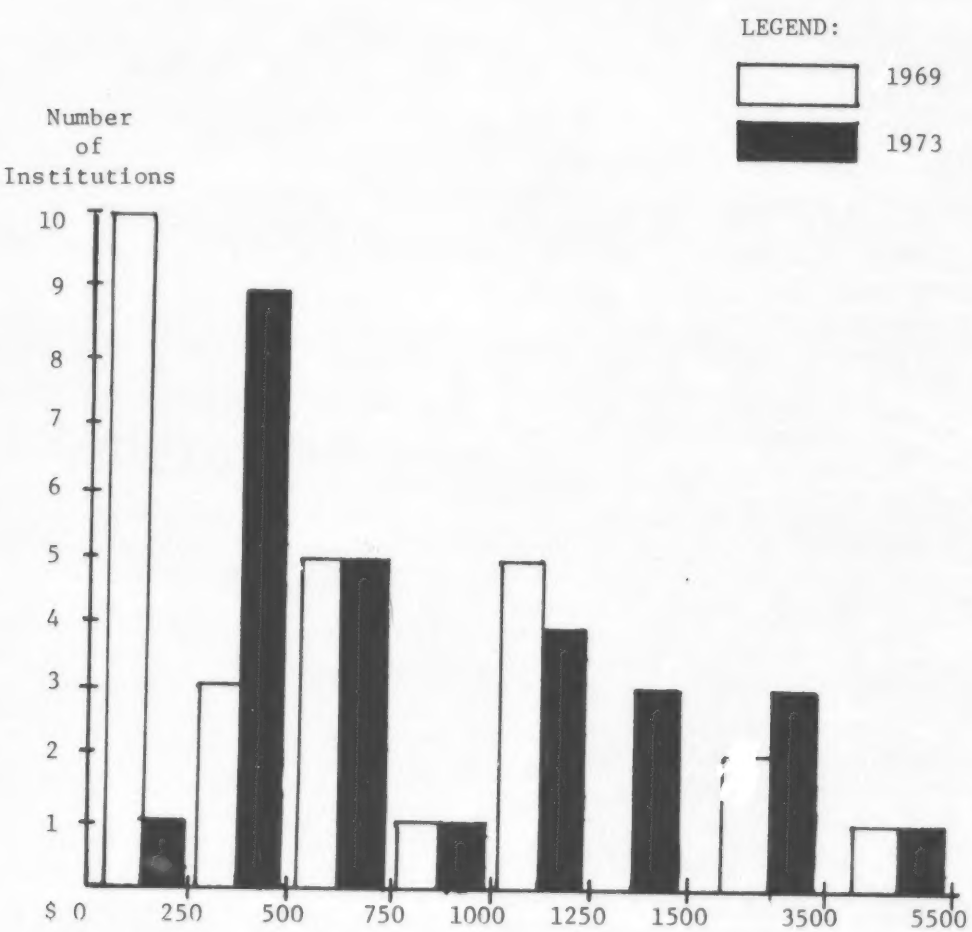
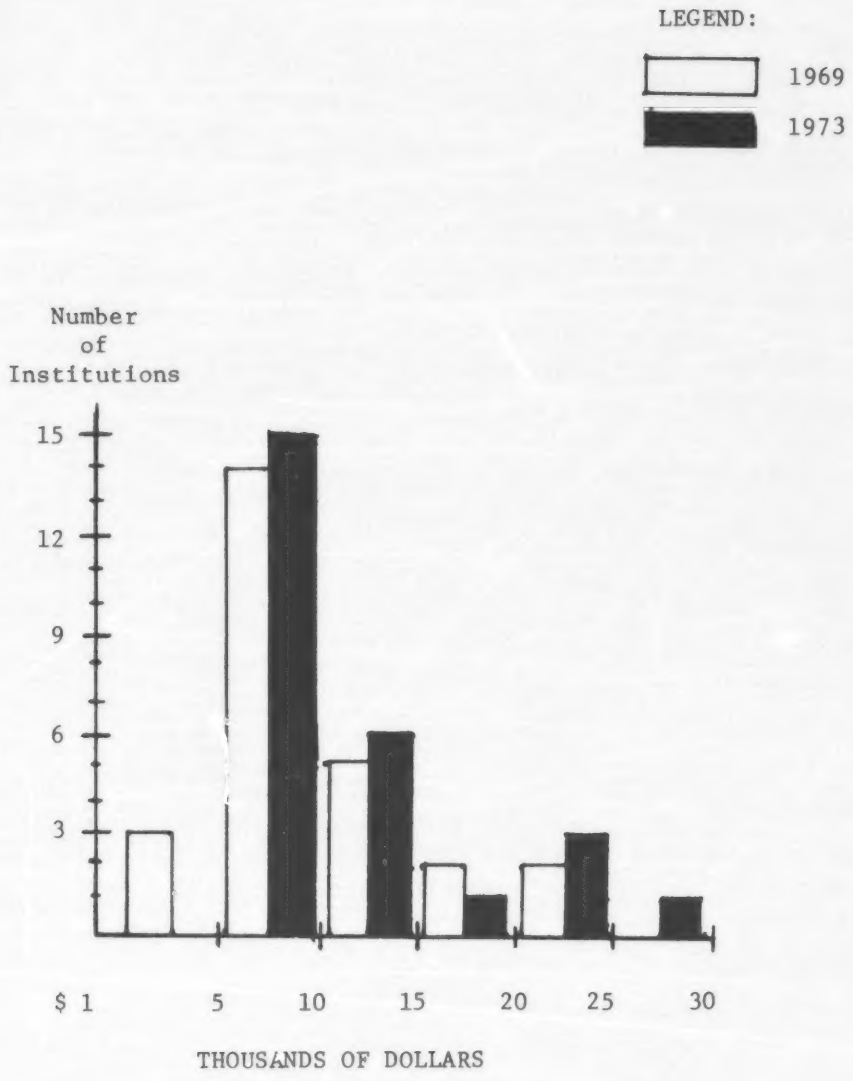


FIGURE 18

PLANT ASSETS PER FULL-TIME EQUIVALENT STUDENT
1969 AND 1973



OVERALL GROWTH

The $196.9 million (32.6 percent) growth in total assets was thus matched by a growth of $186.7 million (37.6 percent) in fund balances. This overall growth in assets was based on real fund-balance growth, not just on borrowing. Only $10.2 million (9.6 percent) of this growth was financed by increased liabilities. A major portion ($6.1 million) of the borrowing was on short-term.

A more specific view of the range of institutional changes is contained in table 5, below.

In 1969, twelve of the institutions (about two-fifths of the 30), were at or below a 2.3:1 ratio of fund balances to liabilities, and the same number were still in this position in 1973. Three of these institutions improved a bit, and three worsened a bit.

TABLE 5

FUND BALANCES AS PERCENTAGE OF TOTAL ASSETS AND FUND-BALANCE-TO-LIABILITIES RATIOS

Fund Balance as % of Total Assets	FB to Liab. Ratios	1968-69 #	1968-69 %	1972-73 #	1972-73 %
Less than 50	Less than 1:1	4	13.3	1	3.3
51 - 60	1.0 to 1.5:1	1	3.3	7	23.3
61 - 70	1.6 to 2.3:1	7	23.3	4	13.3
71 - 80	2.4 to 4.0:1	9	30.0	5	16.7
81 - 90	4.1 to 9.0:1	5	16.7	6	20.0
91 -100	More than 9:1	4	13.3	7	23.3
		30	100.0	30	100.0

	1969 Fund Balance as % of Total Assets	1969 FB To Liab. Ratios	1973 FB as % of Total Assets	1973 FB to Liab. Ratios
Mean	83.3%	4.6:1	85.4%	5.8:1
Median	72.1%	2.6:1	78.1%	3.6:1
Range	28.0 to 97.0%	0.4:1 to 32.3:1	41.9 to 98.3%	0.7:1 to 57.8:1

At the upper end of this index of financial strength, eighteen of the schools (three-fifths of the 30) had fund-balance-to-liability ratios in excess of 2.4:1 in 1969. The same number were in this condition in 1973 also. Here, however, there is a pronounced movement upward. Institutions in a relatively favorable position in 1969 generally improved their position still more by 1973. Five (instead of nine) schools were in the 2.4:1 to 4.0:1 range while seven (instead of four) had ratios of more than 9.1:1.

The marginal nature of the financial improvement of the sector, however, is reflected in the percentages that fund balances represented of total assets in the two years being compared. (See left column of table 5.) The average (arithmetic mean) percentage increased slightly, from 82.3 percent to 85.4 percent, and the median (middle institution) from 72.1 percent to 78.1 percent. The mean and median fund-balance-to-liabilities ratios also increased at the same time. Perhaps the main evidence of improvement lies at the lower end of the range of percentages. The minimum percentage of fund balances to total assets was 28.0 percent in 1969, but rose to 41.9 percent by 1973.

Eleven of the 30 institutions had declines in fund balances as a percentage of total assets and a decrease in their fund-balances-to-liabilities ratios. This movement is cause for concern. Their average enrollment was 1,117 in 1973 or 25 percent below the average for the group as a whole. This further reinforces the preceding statements about the diversity of financial trends within the group of independent institutions.

In addition, the eleven institutions had 1973 fund-balances-to-liabilities ratios averaging 2.9:1 (and, in all cases but three, below 2.0:1). Their percentage of total assets represented by fund balances had declined by 1973 to an average of 70.6 percent, 15 percentage points below that of the group of 30 schools as a whole (and considerably more than this amount below the remaining 19 institutions).

In other words, the weak have been getting weaker, and the strong stronger.

The concentration of financial gains is further illustrated in figure 19: thirteen of the 30 schools had cumulative changes in total fund balances ranging from decreases to increases of less than $2.5 million. The five institutions with increases in total fund balances of at least $10 million each were responsible

for no less than 66 percent ($123.4 million) of the overall gain of $186.7 million by all 30 institutions taken together.

CHANGES IN REAL ASSETS, FUND BALANCES, SURPLUSES, AND DEFICITS

Here, we refer to real asset changes by reducing total asset changes by the amount of artificial assets created through the interfund borrowing that is possible in a fund accounting system.[1]

If we begin with the condition of the current fund account as illustrated in figure 20 for 1970 and 1973, we see that the distribution of surpluses and deficits did not change significantly. As we noted earlier, private Indiana educational institutions taken as a whole switched from a previous current fund surplus to an overall deficit in 1973. In 1973, thirteen schools reported deficits as opposed to eleven in 1970. Slightly over half of the 28 schools reporting are within $50,000 of a balanced current fund (but 15 such in 1973 as compared with 18 in 1970) with 15 percent reporting surpluses larger than $50,000 and 25 percent reporting deficits greater than $50,000.

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[1] For example, if the current fund borrows $50,000 in cash from the endowment fund, the current fund reports the added cash as an asset, and so does the endowment fund (having just traded cash for an obligation of the current fund). The result is double counting in terms of total assets. Only four schools in our study reported no interfund borrowing of this type.

FIGURE 19

CUMULATIVE CHANGES IN TOTAL FUND BALANCES
1969 TO 1973

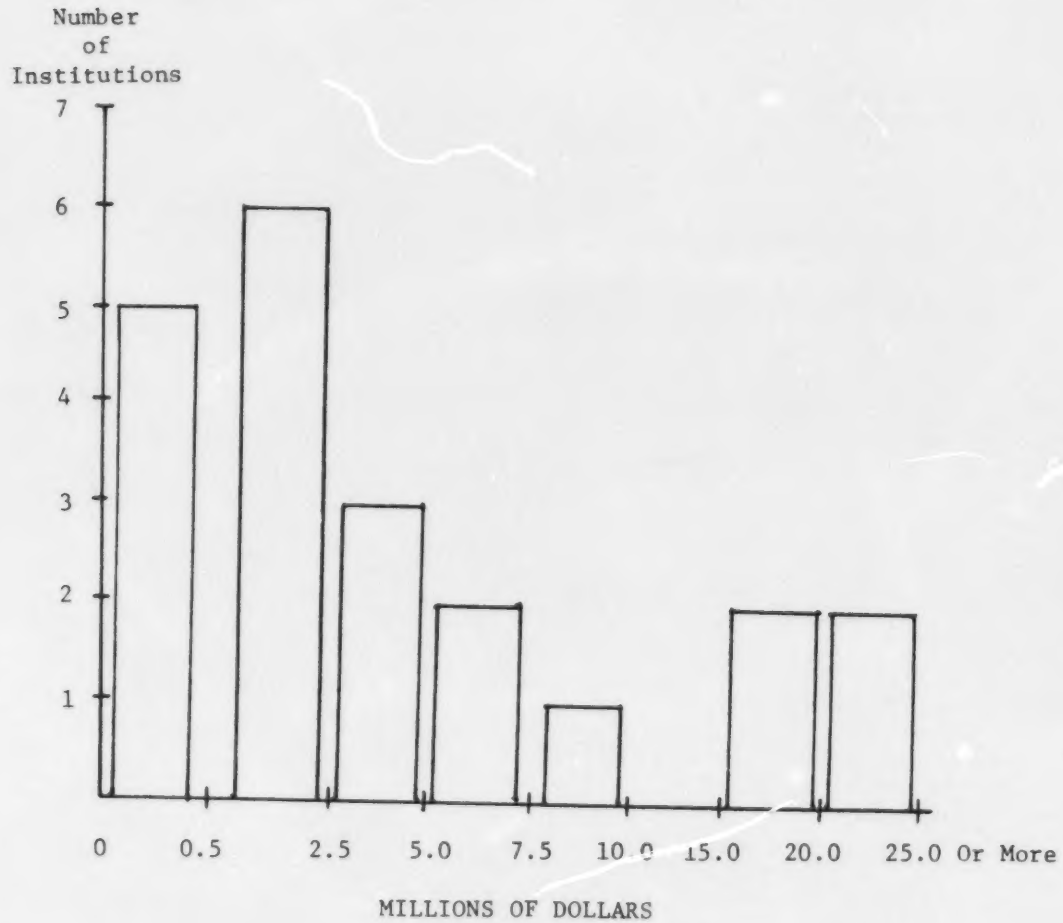

FIGURE 20

CURRENT FUND SURPLUSES AND DEFICITS 1970 AND 1973
(IN THOUSANDS OF DOLLARS)

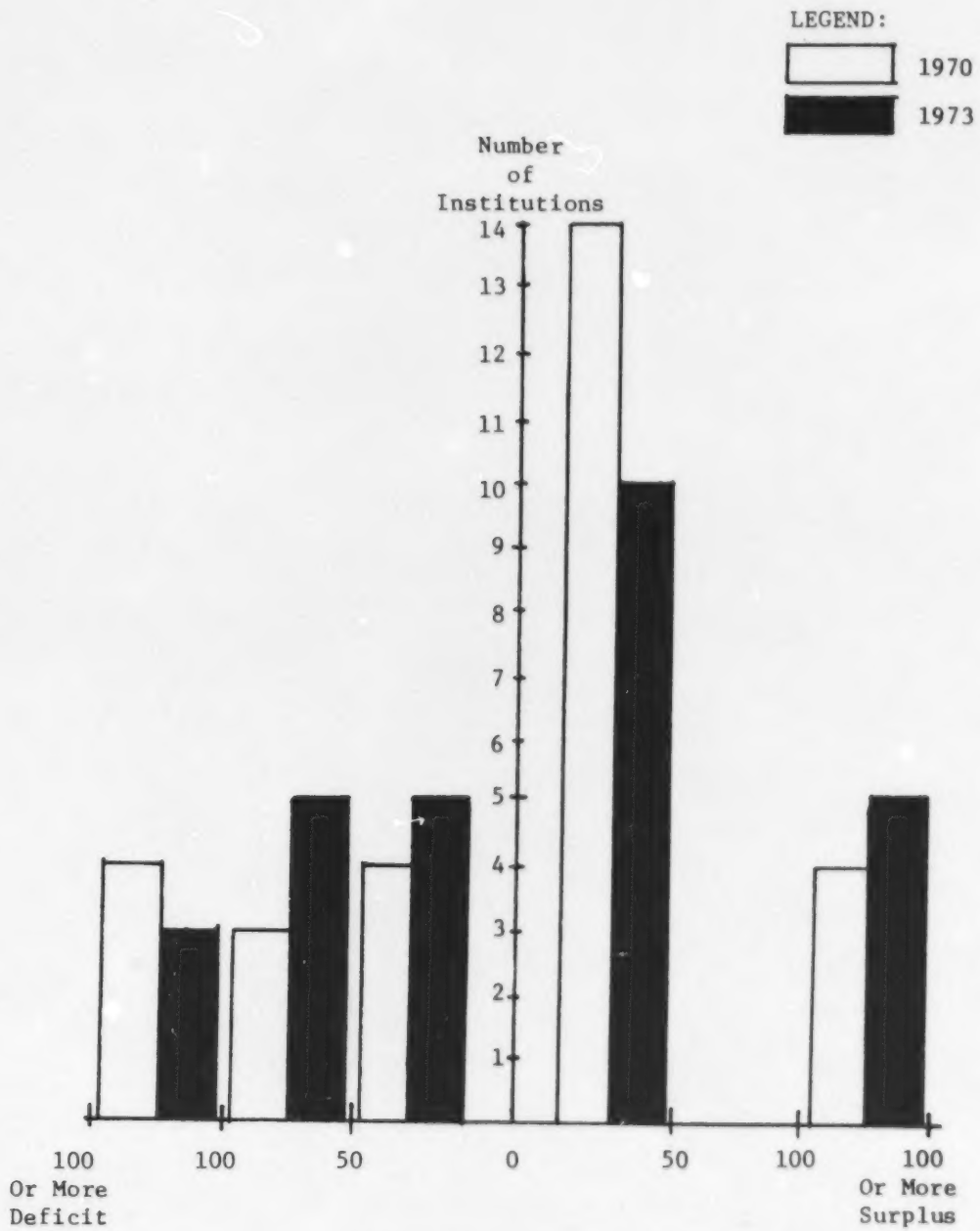

Figure 21 summarizes the distribution of relationships between these current fund changes, the changes in all fund balances, and real assets in 1973 as compared with 1970. The assets and funds balances growth shows a wide range in comparison with the relatively stable pattern of current fund changes noted above. This indicates the need to examine other financial indicators besides current fund surplus and deficits. For example, two institutions reporting the largest cumulative deficits in the current fund (one a university of substantial size) experienced far greater asset and fund balance growth than other institutions.

Interfund borrowing is one indicator of an institution's financial health, since it reflects the inability of a specific fund to finance the activities covered by it, but it is more suggestive than precise. Renovation or expansion of the physical plant, for example, would ideally be funded by unexpended plant fund assets. If, however, this is not feasible, the renovation or expansion may be financed by borrowing cash from, say, the endowment fund or the current fund. If this borrowing preempts assets that should have been allocated to their original uses, it may reveal fiscal ill-health, especially if the institution does not intend to, or cannot, replenish the fund affected. The fact of borrowing, in itself, is not necessarily "good" or "bad". Statistical analysis invites institutional attention to wise financial management more than it indicates the presence or absence of degrees of financial health. It is not even a totally safe bet that borrowing from the endowment fund (if it is not true endowment) is necessarily bad. An institution may have been putting too much unrestricted gift money into quasi-endowment funds too quickly, leaving itself short of funds for current operations. It may, similarly, have more money in the plant fund than its needs require.

At the same time, however, endowment build-up is not keeping pace with rising costs and plant funds do not look adequate to cover future renovation and replacement. When the average institution finds that it must borrow money from endowment funds or from plant funds for current operations, therefore, this is a signal to the watchful and the concerned.

The distribution of interfund borrowing is shown in table 6, below.

In 1969, five institutions had more than 8 percent of their total assets in the form of interfund borrowing, but by 1973, this number had fallen to three institutions. The pattern of borrowings, all in all, appears quite stable.

FIGURE 21

YEARLY CHANGES IN REAL ASSETS, FUND BALANCES
AND CURRENT FUND SUPRLUS, DEFICIT (IN THOUSANDS OF DOLLARS)

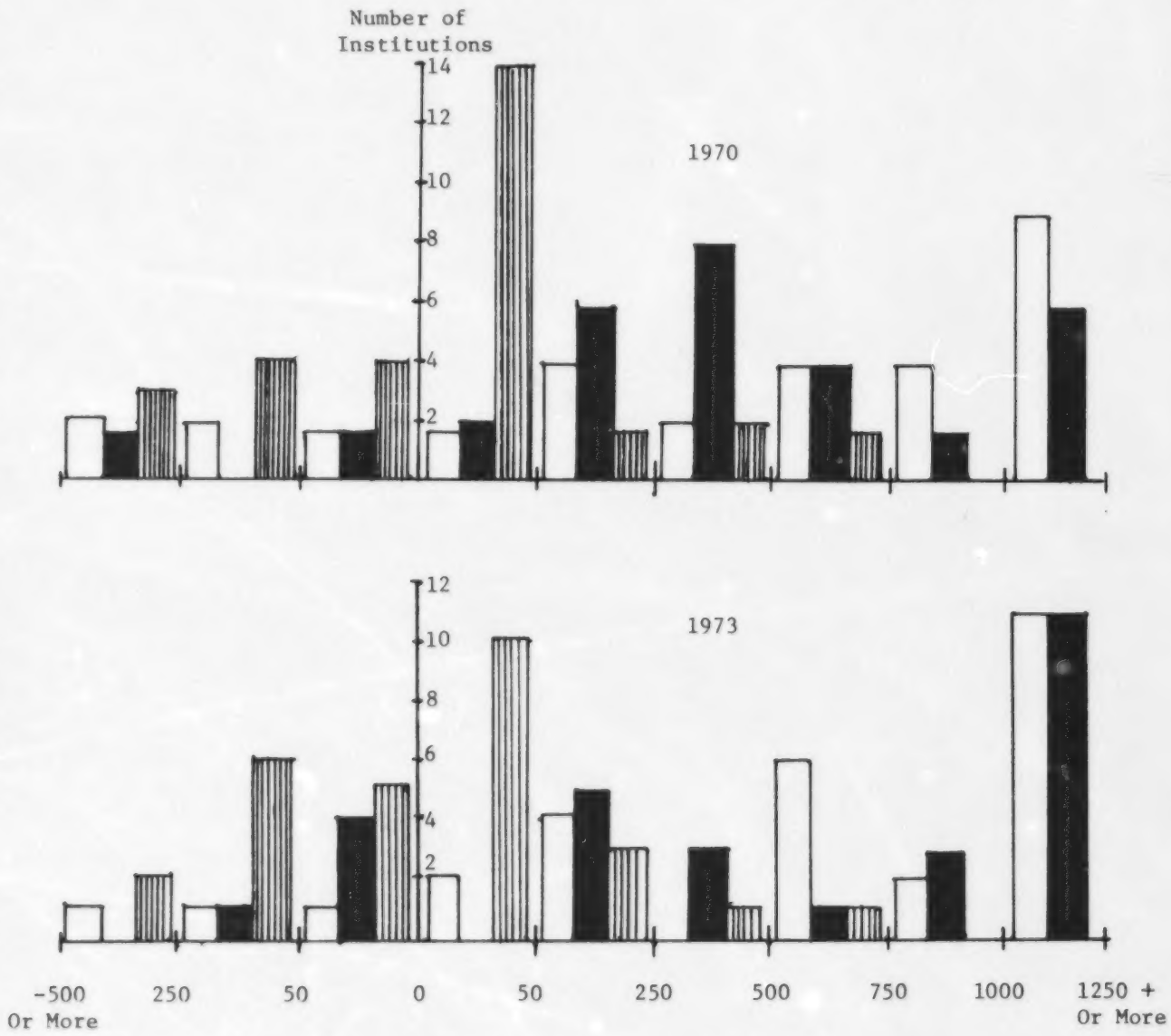

TABLE 6

EXTENT OF INTERFUND BORROWING
AS PERCENTAGE OF TOTAL ASSETS

% of Total Assets	1968-69 #	1968-69 %	1972-73 #	1972-73 %
0 - 2.0%	14	46.6	15	50.0
2.1% - 4.0%	8	26.6	5	16.6
4.1% - 6.0%	2	6.7	3	10.0
6.1% - 8.0%	1	3.4	4	13.3
8.1% - 10.0%	1	3.4	1	3.4
More than 10.0%	4	13.3	2	6.7
	30	100.0	30	100.0
Mean		2.5%		2.4%
Median		2.2%		1.9%